

FINANCIAL TIMES

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D 8523 B

Economic summit:
text of final
communiqué, Page 6

NEWS SUMMARY

GENERAL

Ireland's leaders divided at Forum

Ireland's Premier Dr Garret FitzGerald and Opposition leader Charles Haughey were sharply divided in the opening session in Dublin of the New Ireland Forum, which is intended to produce a consensus on political structures for a united Ireland.

Mr Haughey called for complete political and military withdrawal from Northern Ireland by Britain, to which Dr FitzGerald reacted frostily. Page 20

In Londonderry, Martin McGuinness, Sinn Féin candidate in the British election, was arrested. James Downey, named by British police in connection with an alleged plot to kill British politicians, was seen in County Donegal, in the Republic of Ireland.

Israelis killed

Two Israeli soldiers were killed and three wounded in a Palestinian guerrilla ambush in Lebanon. Page 2

UK presses on lead

Britain is to press its EEC partners to speed progress on banning the use of lead in petrol.

Plea to Turkey

European Parliament asked Turkish President General Kenan Evren to commute 44 death sentences passed last week, 35 against Kurds.

Turkey-Iraq deal

Turkey and Iraq have agreed to allow other troops to cross the border in pursuit of Kurdish rebels.

Barth breaks down

Former U.S. officer Heinz Barth, 62, on trial in East Berlin for war crimes in France, broke down several times and wept as he confessed to helping line up villagers and shooting them in the Oradour massacre in World War II.

Rhine at highest

The Rhine is at its highest level for 35 years. Floods and mudslides have killed seven people in the Rhineland.

E. German expulsions

East Germany has expelled six more peace activists, who were centred on Jena.

Greek banks hit

Greek banks shut yesterday when workers protested against a move to restrict the right to strike in the public sector. Stoppages are planned for today and tomorrow. Other protests are planned against transport, hospitals, power, telecommunications and ports.

S. African ruling

South Africa's Appeal Court went against government "influx control" policy by ruling that migrants who have worked for the same employer for 10 years gain the right of permanent residence in towns.

D-Mark

West Germany is to issue DM 5 coins next month to commemorate the 100th anniversary of the death of Karl Marx, who was born in Trier.

Briefly...

Iceland: Volcano began erupting under Vatnajökull glacier.
Denmark: Thieves stole 55 antique medals and coins from Frederiksborg Castle.
Maiden, Netherlands: Three workers were killed by a blast at an explosives factory.
Peking: Temperatures reached 38.8C (102.0F) in the city's hottest May for 15 years.

BUSINESS

Japan's surplus \$2.4bn in April

● JAPAN achieved an April current-account surplus of \$2.4bn, second only to the March 1978 figure, \$2.4bn. Page 3

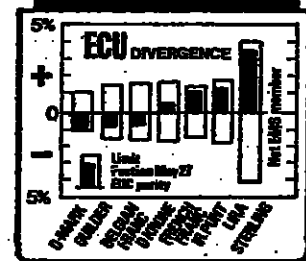
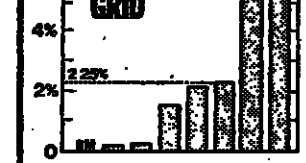
● LONDON, WALL STREET: Exchange rates closed, holiday.

● TOKYO: Nikkei Dow index gained 29.45 from Saturday's session at 8,622.35. Stock Exchange index was 2.76 ahead at 638.11. Report, leading prices, other exchanges. Page 20

● AUSTRALIA'S Labor Government is setting up an inquiry into the country's financial system. Page 22

● JAPANESE and European companies are campaigning for relaxation of EEC controls on the assembly of jointly produced video cassette recorders. Page 3

EMS May 27, 1983



● CURRENCIES showed little overall change within the European Monetary System last week. Attention remained focused on the strength of the U.S. dollar and diminishing hopes of an early cut in U.S. interest rates.

The French franc touched a record low against the dollar while the D-Mark retreated to levels not seen since December last year. The Italian lira was also weak, hovering close to a record low.

Within the system the Dutch guilder weakened after a loss of confidence after the last realignment, and was trading at its lower intervention point against the French franc. That gave rise to speculation that the Dutch central bank might have to lead support through direct intervention in the foreign exchange market and higher guilder deposit rates.

The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lire) may move more than 24 per cent. The lower chart gives each currency's divergence from its "neutral rate" against the European Currency Unit (ECU), itself a basket of European currencies.

● SAUDI ARABIA, Qatar, the United Arab Emirates, and Oman are to increase import duties from September 1.

● BRITAIN and Switzerland signed an agreement in principle to accept each other's certificates covering trade standards. Page 3

● INDONESIA has announced postponement or rescheduling of \$500 worth of projects to save outlay of foreign currency.

● EAST GERMANY is ready to talk to West Germany on increased currency requirements for West Germans entering East Germany.

● CHINA is to buy millions of dollars' worth of milk powder from New Zealand.

Wall St prices

Friday's closing Wall Street prices, usually carried in our Monday edition, are not included in this issue because of public holidays yesterday in the U.S. and Britain. Wall Street and the London Stock Exchange were closed yesterday.

Agreement at Williamsburg to promote exchange rate stability and non-inflationary growth

Summit nations aim for closer economic policies

BY REGINALD DALE, U.S. EDITOR, IN WILLIAMSBURG

THE WILLIAMSBURG summit ended yesterday with a public display of Western unity in which the seven leading industrialised nations agreed to work for tighter convergence of their economic policies to promote greater exchange rate stability and non-inflationary world economic growth.

The generally bland concluding statement from the two-day summit gave President Ronald Reagan much of what he had hoped for but fell short of French demands for a big review of the international monetary system and a more ordered regime of exchange rates.

In a last-minute concession to the French, however, the other countries agreed to consider the possibility at some future date of a world monetary conference, as called for by President François Mitterrand.

The heads of government said they had "invited ministers of Finance, in consultation with the managing director of the International Monetary Fund, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference."

The concession, considered largely cosmetic by most of the other participants, was nevertheless interpreted by the French as vindicating Mitterrand's stand.

As the conference opened on Saturday evening, Mitterrand had compromised by dropping his original reference to a "new Bretton Woods" meeting, which he said had been misunderstood as implying a return to fixed exchange rates.

Mrs Margaret Thatcher, the British Prime Minister - who left early to continue her general election campaign - interpreted the summit's deliberations as a clear endorsement of her economic policies and her overall leadership.

Most of the summit's prescriptions were for more of the same, whether on efforts to control inflation, intensify economic and monetary consultations, or rescue indebted developing countries.

The summit statements nevertheless concealed persistent divergences over U.S. domestic economic policies - particularly on interest rates and budget deficits - as well as on the management of exchange rates and Mr Reagan's apparent efforts to turn the annual economic summit into a forum for consultations on East-West economic and security policies.

A joint statement reaffirming the West's commitment to arms reductions from a position of military strength was agreed, only after

strenuous French and Canadian objections to such an initiative had been overcome.

The summit, however, avoided a major ideological clash over the overall Western approach to the Soviet Union, such as that which embittered last year's Versailles summit and its aftermath.

The main thrust of the summit's work on economic convergence was contained in a separate working paper in which the finance ministers agreed to strengthen the five-nation "surveillance" procedures first agreed at Versailles.

White House officials maintained that the other participants had shown "understanding" of U.S. budgetary and interest rate problems and Mr Reagan's plan to reduce budget deficits by spending cuts and economic growth.

Mrs Thatcher, while expressing her concern, was generally sympathetic to Mr Reagan's predicament. The other leaders, however, launched strong attacks on the continuing high level of U.S. interest rates, which they linked directly to the size of the deficits - a link that was again rejected by Mr Donald Regan, the U.S. Treasury Secretary.

The U.S. nevertheless found little difficulty in accepting the commitment in the final statement to re-

duce structural budget deficits and interest rates from their present level.

M. Jacques Delors, the French Finance Minister, said the debate on interest rates had been heated, with all the other countries uniting in their onslaught on Mr Reagan, who responded in a sharp and lively manner.

The main theme drummed home by the French, however, was the danger posed to the world monetary system by the continuing rise of an overvalued dollar as a reserve or "reference" currency dominating international transactions.

The summit expressed willingness "to undertake co-ordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful."

The summit leaders repeated their commitment to halting protectionism and paying greater attention to the link between monetary, trade, economic and financial policies. They rejected, however, U.S. attempts to establish more regular joint meetings of trade and finance ministers along the lines of the gathering held at U.S. invitation during the meeting in Paris earlier this month of the Organisation for Economic Co-operation and Development.

Monetary and fiscal plans to be monitored

BY MAX WILKINSON IN WILLIAMSBURG

THE FINANCE ministers of the seven summit countries yesterday agreed at Williamsburg an important and detailed statement on the principles that should guide economic policy in the interests of better exchange-rate stability. The main theme, endorsed by the heads of government, was that the countries should co-operate in a regular medium-term review of their fiscal and monetary policies.

That follows the concept of the British medium-term financial strategy, although it will not be as detailed, nor the nations down to particular figures.

The main forum for future discussions will be an extension of the surveillance procedures for the five leading countries established at the Versailles summit a year ago.

Since then, there have been three meetings of the finance ministers of the SDR (special drawing rights) countries - the U.S., the UK, France, West Germany and Japan - with the managing director of the International Monetary Fund to compare general economic policies.

It was decided yesterday that this process should become more formalised and perhaps more regular.

The agreement reflects the recognition among heads of government of a shift of focus of policy towards the levels of exchange rates and their effects on trade and financial flows when rates are "misaligned."

The emphasis continues to be on the need for convergence of economic policies rather than on direct intervention in the foreign exchange markets. However, the guidelines on which policies should converge have now been made more explicit.

The statement agreed by finance ministers included a clause aimed particularly at the U.S., underlining the need to consider the effects of domestic policies on other countries.

The main charter for future policies has four headings:

Monetary policy. Growth of monetary aggregates should be disciplined and non-inflationary. Interest rates should be appropriate to avoid future inflation.

Fiscal policy. The governments are pledged to "discipline over government expenditure, particularly transfer payments," and to reduce "structural budget deficits."

Exchange rates. Consultations are to be improved with policy con-

Continued on Page 20

Chevènement criticises Paris policy on franc

BY DAVID HOUSEGO IN PARIS

M. JEAN-PIERRE CHEVÈNEMENT, the former French Minister of Industry, embarrassed his Socialist colleagues at the weekend by claiming that France could not avoid a further devaluation of the franc.

Directly attacking the stabilisation measures announced in March, M. Chevènement predicted an increase in unemployment and added that in view of the difference between France and West Germany's inflation rate, "the only issue is to know when the next readjustment will take place."

M. Chevènement, who leads the Ceres faction on the left of the party, told a Socialist convention that the Government's policy would not succeed and that it was not Socialist. He delivered an indirect rebuff to President Mitterrand in saying that although the government had only one policy, that did not prevent the Socialist party from having two.

In an effort to quell speculation of divisions within the government over the issues of protectionism and withdrawal from the EMS, President Mitterrand said a fortnight ago that there was only one policy



M. Chevènement: 'devaluation inevitable'

within the government. He repeated then his support for the measures taken by M. Jacques Delors, the Finance Minister, and M. Pierre Mauroy, the Prime Minister.

M. Chevènement said that the devaluation of demand would only result in a fall in investment. In a key passage in his speech he sketched out the alternative policy favoured by some radicals in the party.

"Without leaving the EMS," he said, "we can renegotiate our participation in it like the pound sterling, carry out more frequent readjustments, avoid incurring short-term debt, reduce the supply of goods from abroad while providing a stimulus for domestic production."

M. Chevènement and his supporters found themselves very much in the minority at the convention and were criticised for disloyalty to the party. But by speaking out now, he hopes to strengthen his position at the party Congress in the autumn should the austerity measures be seen to have failed.

A danger for the government is that his remarks will encourage the Communists to sharpen their criticisms.

Among those who rallied to the government's defence against M. Chevènement was M. Edmond Maire, the leader of the pro-Socialist CFTD union. He said there were Frenchmen who made the government the scapegoat for the country's difficulties and intellectuals who took a morose satisfaction in their disappointment.

Sterling and \$ continue to strengthen

By Jeremy Stone in London

EUROPEAN foreign-exchange markets yesterday were unimpressed by early indications from the economic summit at Williamsburg, where leading nations were reported to have agreed that concerted intervention in currency markets might be appropriate in some circumstances. The dollar and sterling continued to rise in the face of some central-bank intervention.

Foreign-exchange dealers were disappointed at the apparent lack of substantial results emerging from Williamsburg, although little had been expected.

Although public holidays in the U.S. and UK meant that trading in continental markets was thinner

Spain to buy 72 U.S. jet fighters

BY DAVID WHITE IN MADRID

SR FELIPE GONZÁLEZ, the Spanish Prime Minister, yesterday announced that Spain would buy 72 U.S. McDonnell-Douglas F/A-18 Hornet fighters for its air force. The total value of the deal is estimated at about \$2.5bn.

The decision finally eliminates the European Tornado multi-role combat aircraft from what would have been its first export breakthrough outside the countries participating in its manufacture - Britain, West Germany and Italy.

The Socialist Government has retained the original option chosen by the previous Spanish administration last July, but will reduce the initial purchase from 84 to 72 aircraft.

Mr González said the Government had opted to reduce the purchase to

give itself greater flexibility and to obtain savings on budget expenditure of about Pta 50bn (\$300m).

The possibility of increasing the number of aircraft later is left open. Although the choice of the U.S. aircraft reflects the clear preference of the Spanish air force, which concluded that the F/A-18 fitted its multi-role requirements better than the Tornado, the reduction by a full squadron is a blow to military demands.

The final purchase involves only half the 144 aircraft which were foreseen when studies on the next generation of fighters for the Spanish air force were started five years ago.

ICI in £10m science venture

BY DAVID FISHLOCK, SCIENCE EDITOR, IN LONDON

THE BOARD of ICI, Britain's chief chemical company, has embarked on a big new venture to unearth or invent novel chemicals for the electronics industry, with the aim of taking a significant share in that industry's profits.

The company is committing £10m (£10m) initially to a three-year experiment, with a commercial goal of creating a new £100m specialty chemicals business by the end of the decade.

The new business venture, called the Electronics Group, is independent of ICI's operating divisions. It reports to Dr Charles Reece, main board director, for research and technology.

Dr Reece says that initially the main markets will be Japan and the U.S., where the company is already discussing collaborations with electronics companies to invent the chemicals needed for big advances

in electronics and information technology.

The electronics group does not include an estimated £30m business ICI is already doing with the electronics industry. This is chiefly in recording tapes, solvents and solder masks, where the company competes mainly on price.

ICI puts the present world market for chemicals in electronics - a high growth industry - at £5bn.

According to McGraw Hill's trade journal, Chemical Week, the specialty chemicals needed by the industry can cost as much as £1,000 a gallon.

The market has already attracted such names as Allied Chemical, Dupont, Eastman Kodak, Hoechst and Union Carbide. But ICI believes that, as yet, no one has a very large electronics chemical business.

Dr Reece says the aim of the new venture will be "to advance technology by a big factor - not to compete on price." It means close collaboration with a customer to identify markets, he says.

Dr Reece believes the best opportunities lie at the man-machine interface: visual displays and print-outs, for example. But he describes the industry as "highly fragmented and very fast moving, with life cycles for the final product as brief as three years."

The entrepreneur ICI has chosen for its new business venture is Mr John Mellers, formerly responsible for finding new business for ICI's organics division. The electronics group has set up office this month at Runcorn Heath, with a staff of 40.

Mr Mellers says his group has access through an ICI data bank to 400,000 novel chemicals discovered by ICI scientists but never commercialised.

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OVERSEAS NEWS

Defence policies provide fuel for political dispute

By REGINALD DALE, U.S. EDITOR, IN WILLIAMSBURG

DEFENCE and arms control policies provided an unexpected centre piece for the Williamsburg summit's major political dispute. It was not that the seven leaders disagreed much about the fundamental issues. The row was over whether, and if so, how and when, to record an agreement. The U.S. felt that the summit should respond to Friday's "threatening statement" by the Soviet Union that it might deploy missiles closer to the West if deployment of new American cruise and Pershing II missiles went ahead in Western Europe.

For the French, in particular, the injection of defence policy into an economic summit—at Anglo Saxon behest—raised a profound question about the way that the Western alliance should be run and its leading institutions organised. After a long day of drawn out discussions and fraying tempers, the seven participants finally delivered a joint statement on Sunday evening—seven hours after Mr George Shultz, the U.S. Secretary of State, had originally been due to read it out.

The statement pledged the summit countries to maintain military strength while pursuing arms reductions negotiations with the Soviet Union with "impetus and urgency." It warned Moscow that it could not divide the West "by seeking to influence public opinion" or "trying to include the British and French strategic deterrents in the Geneva negotiations on intermediate range nuclear forces (INF)."

While these sentiments were far from new, President Reagan wanted the summit to strengthen his hand both with the Soviet Union and with U.S. domestic opinion. The summit reaffirmed the deployment plan in a response that was welcomed as "very strong" by Mr Shultz.

Mrs Margaret Thatcher, the British Prime Minister, thought that the statement could be useful for her election campaign, emphasising as it did the West's commitment to arms reductions alongside its determination to defend peace and freedom.

For hours the French dug in

Arms text affirms united front

WILLIAMSBURG — The following is the full text of the arms control statement issued by the seven major industrial countries at the summit:

As leaders of our seven countries, it is our first duty to defend the freedom and justice on which our democracies are based. To this end, we shall maintain sufficient military strength to deter any attack, to counter any threat, and to ensure the peace. Our arms will never be used except in response to aggression.

We wish to achieve lower levels of arms through serious arms control negotiations. With this statement, we reaffirm our dedication to the search for peace and meaningful arms reductions. We are ready to work with the Soviet Union to this purpose and call upon the Soviet Union to work with us.

Effective arms control agreements must be based on the principle of equality and must be verifiable. Proposals have been put forward from the Western side to achieve positive results in various international negotiations: on disarmament in Europe, on the area of INF, in particular we call upon the Soviet Union to contribute constructively to the success of the negotiations. Attempts to divide the West by proposing inclusion of the deterrent forces of third countries, such as those of France and the UK, will fail. Consideration of these systems has no place in the INF negotiations.

Our nations express the strong wish that a balanced INF agreement be reached shortly. Should this occur, the negotiations will determine the level of deployment. It is well known that should this not occur, the countries concerned will proceed with the planned deployment of the U.S. systems in Europe at the end of 1983.

Our nations are united in efforts for arms reductions and will continue to carry out thorough and intensive consultations. The security of our countries is indivisible and must be approached on a global basis. Attempts to avoid serious negotiation by seeking to influence public opinion in our countries will fail.

Time will tell if summit's tone was confident or complacent

By ANATOLE KALETSKY IN WILLIAMSBURG

WHETHER THE right description for the tone of the seven-nation summit was "confident" or "complacent" will only be revealed in the months and years ahead.

President Ronald Reagan, the host, had made it clear from the start that he hoped for a summit which would endorse his optimism about the U.S. economic recovery, a strong U.S. recovery would take care of more or less automatically, of most of the hazards facing the world—in his view at least.

One senior White House official standing around waiting for the leaders to go into Sunday lunch, was asked what the President would be telling the others about the massive U.S. deficit. "If the recovery really gets going you will hear less about the deficit problem, in the next year," he replied.

What about the increasing protectionism in the Congress resulting from the strong dollar? "The protectionism is already fading as the recovery takes hold."

How worried is the Administration about the overhang of Third World debt? "It's pretty well under control. Most of the debt problems will lessen once the recovery takes off."

The other leaders, however, came to Williamsburg in a more sullen mood. They came to complain about the level of interest rates and the dollar. And indeed they did deliver the President what was by all accounts the U.S. accounts, a harsh lecture on his speech. But they came out speaking of recovery, unity and convergence.

They said they understood the President's problem with Congress, although if they had read their papers they would have seen that the Congress is trying to force smaller deficits, not larger, on Mr Reagan. They said they were not sure the world as a whole, not just the U.S., was moving towards recovery. The only further action needed (as a concession

to the French), would be a series of discussions among finance ministers on the advantages and disadvantages of monetary reform at some time in the future, and there would be increasing co-ordination of national economic policies with the International Monetary Fund playing an enhanced role in the future.

The result of this summit must be considered gratifying for politicians and economists who think that a resurgence of inflation is the greatest danger facing the world economy in the next few years. Everybody, even the French, talked of the need to reduce budget deficits in order to promote recovery—not just in the U.S. but, it seemed, in all countries including even West Germany and Japan, where domestic savings are currently well above private investment demands.

Indeed the really dominant figure at this summit was not, despite the setting and his natural pre-eminence, the

Foot attacks lack of expansion strategy

By IVO DAWNEY, LABOUR STAFF

BRITAIN'S opposition parties yesterday seized on Mrs Margaret Thatcher's optimistic interpretation of the Williamsburg summit outcome as a new weapon with which to attack the Conservatives' economic record.

As the UK's general election campaign enters its third week, senior Labour Party leaders repeatedly warned that

the failure of the summit to agree a joint strategy for expansion would have "catastrophic" consequences for industry and jobs.

The Labour attack came just hours after the Prime Minister returned to London to resume her campaign for a second

term. Earlier, she had told reporters she was "heartened" by the conference.

Inflation and interest rates were down and productivity was rising in several economies, however she warned that there were no quick cures for the world economy. "A quick cure is a quick cure," Mrs Thatcher said.

The Prime Minister was critical of the view that there would be no change of course for the economy under her administration.

Mr Michael Foot, the Labour leader, said the summit gave "no hope" for the country's 3.2m unemployed. "Williamsburg is a catastrophe for the Western world as a whole," he said.

Mr Denis Healey, the deputy Labour leader and a former Chancellor, claimed that the summit outcome meant the world banking system was now

ever of a recovery here in Britain and the British Government is determined to do nothing whatever to fight the recession," he said.

optimistic President Reagan. Rather it was the stern Prime Minister Margaret Thatcher and, some way behind, the newly elected Chancellor, Helmut Kohl of West Germany.

The Chancellor who, in his budget just a few weeks ago, put an additional fiscal squeeze on the German economy, heartily endorsed the continuing drive to reduce inflation and budget deficits. The idea that some countries, particularly Germany and Japan, might have "more room for manoeuvre" than others, and might therefore benefit both themselves and the world by adopting more stimulative policies, was apparently not even mentioned during the discussions among the heads of state.

On Sunday alone, there were four guerrilla attacks on Israeli forces, though three of the incidents did not cause any serious casualties. Although tensions between Israel and Syria have abated somewhat neither side has relaxed its military posture. Israeli forces are still in a high state of alert, and there has been no reduction in troop levels which have been increased last week as a precautionary measure.

Reuter reports from Beirut: President Amin Gemayel of Lebanon yesterday called on other Arabs to support his efforts to get foreign troops out of the country.

In a speech in mainly Muslim West Beirut, Mr Gemayel also called for unity between Christians and Muslims. By his very presence he was backing his words with action. It was the first time for many years that a president, traditionally a Christian, had addressed a public rally in the west of the city.

Local Muslims were

astonished by his surprise appearance at the rally, which was organised by a Muslim charity group. "He certainly shows courage coming over here," was a recurrent comment.

Meanwhile, Mr Yasser Arafat, the Chairman of the Palestine Liberation Organisation (PLO) yesterday cancelled a meeting of his closest aides planned for this week and toured north-western Lebanon after his PLO officers had been ordered to their military against his Fatah group. AP reports from Damascus. Fatah is the largest of the PLO groups.

Turkey claims swift success against Kurds

By Our Foreign Staff

The Turkish army's operation against Kurdish guerrillas in northern Iraq has been completed, according to a statement by a military official's claims in Ankara.

Last week some 2,000 Turkish troops, acting in co-ordination with the Iraqi government, moved across the border to attack Kurdish guerrillas. The Kurdish rebels had long been active in Turkey's south-eastern provinces and early in the year had killed three Turkish soldiers.

There was some question yesterday, however, as to whether the Turkish operation had ended in a complete withdrawal of Turkish troops or whether the Turks had established themselves in Iraqi territory.

The Turkish Foreign Ministry said that it understood that the troops had left Iraq, after penetrating 30 kilometres (19 miles) into the country. But representatives in London of the main Kurdish groups in Iraq reported that Turkish troops were consolidating positions up to 2 kilometres inside Iraqi territory.

Similar disagreement surrounded the scale of fighting in Iraqi Kurdistan at the end of last week. The Kurdistan Democratic Party (KDP) said that there had been no clashes so far, though Turkish and Iraqi officials said that 1,500 to 2,000 Kurds had been captured. According to the two governments' version of events, there were no casualties on the Turkish side.

The Patriotic Union of Kurdistan (PUK), a rival of the KDP in Iraq, reported that there had been heavy fighting in which 100 Turkish soldiers had been wounded, and that the Turkish army had captured two of the PUK's camps.

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Two more Israelis killed in Lebanon

By David Lennon in Tel Aviv

GUERILLA attacks on Israeli forces in Lebanon intensified over the weekend, even as the threat of an immediate outbreak of war between Israeli and Syrian forces receded. This followed the ending of Syrian military manoeuvres in eastern Lebanon and on the Golan Heights.

Two Israeli soldiers were killed and three injured in an ambush near Bahadoun in central Lebanon on Sunday afternoon, the army spokesman announced in Tel Aviv yesterday.

Officials in Jerusalem believe that Damascus is deliberately encouraging incessant guerrilla harassment of Israeli troops. "The Syrians are believed here, regard this as a more effective way of undermining Israeli's resolve to stay in Lebanon than a full-scale war."

Israel has yet to find an effective way of combating the rising level of guerrilla attacks. From the point of view of casualties, Israel could have been the worst loser since the Israeli forces began their withdrawal from Beirut last September. Seven soldiers were killed and 65 wounded.

On Sunday alone, there were four guerrilla attacks on Israeli forces, though three of the incidents did not cause any serious casualties. Although tensions between Israel and Syria have abated somewhat neither side has relaxed its military posture.

Israeli forces are still in a high state of alert, and there has been no reduction in troop levels which have been increased last week as a precautionary measure.

Reuter reports from Beirut: President Amin Gemayel of Lebanon yesterday called on other Arabs to support his efforts to get foreign troops out of the country.

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There was some question yesterday, however, as to whether the Turkish operation had ended in a complete withdrawal of Turkish troops or whether the Turks had established themselves in Iraqi territory.

The Turkish Foreign Ministry said that it understood that the troops had left Iraq, after penetrating 30 kilometres (19 miles) into the country. But representatives in London of the main Kurdish groups in Iraq reported that Turkish troops were consolidating positions up to 2 kilometres inside Iraqi territory.

Similar disagreement surrounded the scale of fighting in Iraqi Kurdistan at the end of last week. The Kurdistan Democratic Party (KDP) said that there had been no clashes so far, though Turkish and Iraqi officials said that 1,500 to 2,000 Kurds had been captured. According to the two governments' version of events, there were no casualties on the Turkish side.

The Patriotic Union of Kurdistan (PUK), a rival of the KDP in Iraq, reported that there had been heavy fighting in which 100 Turkish soldiers had been wounded, and that the Turkish army had captured two of the PUK's camps.

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Right loses ground in San Marino

By James Buxton in Rome

THE ATTEMPT by the Christian Democrats of San Marino, the tiny independent state in Northern Italy, to regain control of the republic from the Left appears to have failed.

In elections at the weekend for the San Marino Grand Council support for the Christian Democrats, the biggest party, led by a faction of a personalist point, while the two Socialist parties between them gained nearly 4 per cent.

The Communists, the second biggest party in San Marino, who have ruled in coalition with the Socialists since 1978, lost nearly 1 per cent of their vote.

Unless the Socialist parties go in to the coalition with the Christian Democrats, the present Government, in which the Communists are the largest single party, will continue in office, making the 81-square-kilometre state the only one in Western Europe with a Communist-led administration. The republic was Christian Democrat-run for more than two decades until 1978.

The outcome of the vote is a big disappointment to the San Marino Christian Democrats. They counted hard on the 31,000 voters (7,000 of whom are non-resident) to improve their position.

The key question in the Italian general election to be held at the end of next month, is by how much the Italian Socialist Party increases its vote. The slight fall in the Communist vote in San Marino may be taken in Rome as reflecting the marginal decline in the Italian Communist vote which both opinion polls and pundits forecast.

Aircraft shot down over Maputo

By Michael Holman in Maputo

AN unidentified aeroplane, thought to be a South African fighter, was shot down over Maputo on Sunday afternoon, the official Mozambique news agency has said.

Several independent eyewitnesses said two high-flying jets, which were overflying the city, were fired on by anti-aircraft guns situated on the bay. One of the planes was seen falling into the sea.

An eyewitness with military experience identified the aeroplanes as Mirages. The same eyewitness reported that one of the planes had dropped what seemed to be a smoke bomb over one of the city markets, sending shoppers fleeing in alarm, but no casualties were reported.

Gonzalez on Latin American tour in effort to revive historic links

By DAVID WHITE IN MADRID

SPAIN yesterday entered a period of intense diplomatic activity with the start of a Latin American tour by Sr Felipe Gonzalez, the Prime Minister, and the opening of official talks in Moscow by his Foreign Minister, Sr Fernando Moran.

These key visits come after controversy over the handling of several aspects of foreign policy under the Socialist administration.

Sr Carlos Miranda, the head of the Foreign Ministry's Latin American department, who was to have accompanied the Prime Minister, resigned on Friday as a result of an embarrassing incident during King Juan Carlos's recent visit to Brazil and Uruguay. Parts of a speech delivered by the king to the Brazilian Parliament were found to correspond word-for-word with published declarations by Sr Gonzalez.

The Latin American tour, which covers five countries and six cities in six days, is being given a symbolic significance in that it is being held before Sr Gonzalez's first trip to the U.S. on June 20.

The tour is being billed as essentially political in nature, and its impact is likely to be enhanced by Sr Gonzalez's own personal standing.

Community still divided on worth of Ecosoc

By JOHN WYLES IN BRUSSELS

THE EEC's economic and social committee will back in Brussels tonight today as it celebrates its 25th birthday with Community opinion still divided as to whether it is a European quango which can now be dispensed with, or an institution playing a valuable consultative role in the policy-making process.

One-third of its 156 members are selected to represent the employer interest, another third the trade union opinion and the remaining third, the general public. Required by the Treaty of Rome to provide the European Commission and the Council of Ministers with an opinion on all proposed EEC legislation, the committee's influence has always been difficult to evaluate.

For much of its life Ecosoc, as it is known, has seemed to be the EEC's "lost institution." Although it meets in plenary session 10 times a year, it has never been able to attract as much public attention as the

Sr Felipe Gonzalez, sought yesterday to reassure international business about the Socialist Government's commitment to the private sector and said it hoped to bring inflation down to European norms by the end of its term in 1986, our Madrid Correspondent writes.

Opening a two-day conference organised by the International Herald Tribune here, he said this year's inflation target of 12 per cent, against last year's 14 per cent, was well within reach and that the aim was

However, Spanish officials have sought to play down the idea of a separate Spanish initiative in the central American imbroglio. The Government has put its weight instead behind the so-called Contadora initiative, led by Sr Gonzalez, which has extended his trip to include all four countries involved in the peace move—Colombia, Venezuela, Panama and Mexico—after a first stop in the Dominican Republic.

Spanish hopes of reviving historic and linguistic links in the region, in the search for a zone of influence and new markets for Spanish companies,

U.S. machine tool slump continues

THE U.S. machine tool industry remains in a deep depression, with few signs of a recovery in business, Richard Lambert writes from New York.

New orders in April fell to \$119.2m, 31 per cent below the previous year's level and comparing with figures of \$125.6m in March and \$97.5m in February.

New orders in the first four months of the year fell by 34 per cent to \$434m. The backlog at the end of April stood at just under \$950m, down from \$2.5bn a year earlier.

Thomas tipped for El Salvador job

Gerald E. Thomas, U.S. ambassador to Guyana and a retired navy admiral, is the top candidate to replace Mr Deane Hinton as American ambassador to El Salvador, a Reagan administration official says, AP reports from Washington.

White House spokesman Mr Larry Speakes told Mr Hinton would be replaced, telling reporters, "We have no announcement to make." But a well-placed official, who spoke on condition that he not be identified, confirmed that Mr Hinton is on his way out.

Hundreds detained after Lima explosions

About 500 people have been detained in connection with a series of explosions that blacked out Lima for 90 minutes on Friday night, police officials said yesterday, Reuter reports from Lima.

Police blamed the Maoist Sendero Luminoso (Shining Path) guerrilla movement for the 40 bomb attacks which felled 10 electricity pylons and destroyed the Bayer chemical and industrial plant on the outskirts of the city. The damage is estimated at about \$400m.

Steel companies appeal against output fines

Two steel companies, Kloeckner Werke of West Germany and Union of France yesterday appealed against a European Community Court of Justice decision to fine them on charges of excess production. AP-DJ reports from Luxembourg.

On March 24, the court fined Kloeckner DM 100m for exceeding compulsory output levels during the fourth quarter of 1981 and the first and second quarters of 1982. It also fined Union FR 82.4m for excess output during the fourth quarter of 1981.

Soviet Union unlikely to beat economic problems, says report

By NANCY DUNNE IN WASHINGTON

THE Soviet Union, while possessing a "viable" economy with great potential, is beset by problems its leaders are unlikely to overcome, according to a study released yesterday by the Congressional Joint Economic Committee.

The two-volume study, "Soviet Economy in the 1980s: Problems and Prospects," is composed of more than 50 papers written by Government and private Soviet specialists before the death of Leonid Brezhnev.

Its writers conclude that the Soviet economy will continue to grow at a low but steady level, perhaps as high as 2 per cent in some years. However, "anything the Soviet leaders might do that would be economically significant in improving performance to 3 to 4 per cent annual GNP growth, would be politically unacceptable within the USSR, and that anything they might do that was politically acceptable would be economically insignificant."

Having achieved a high growth rate until the 1970s, the Russians must now concentrate on "intensive" development—rapid productivity gains through the introduction of new technology, improved incentives and better planning and management. Yet the slow pace of economic reform and the decline in growth of plant and equipment threatens the introduction of new technology and hence productivity goals, the report says.

Despite recent reforms, planning in the USSR today was more centralised, rigid and detailed than ever before it says. Public disillusionment with the system may be contributing to the increase of alcoholism and mortality of work-age males and to the decrease in labour discipline and labour productivity.

The papers in the study, most of which contain original research based on primary sources of information, cover a wide variety of topics, including investment policy, industrial development, the steel industry, transportation, energy, defence, Western technology transfer, agriculture, health, population changes and foreign trade.

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OVERSEAS NEWS

Machel takes defence job in Mozambique reshuffle

BY MICHAEL HOLMAN IN MAPUTO

MOZAMBIQUE has embarked on the most wide-ranging government reshuffle since independence in 1975, designed to meet criticism of its handling of a growing economic crisis, as well as its failure to control the activities of anti-government guerrillas.

Key moves announced by President Samora Machel include his own assumption of overall control of defence, and the creation of a new Minister of Economic Affairs within the Office of the President. Several senior Ministers have also been given responsibility for individual provinces as part of an effort to decentralise the administration.

The latest phase of the reshuffle comes just a week after South Africa bombed targets in the suburbs of Maputo, the Mozambique capital, underlining the country's vulnerability to attack. South Africa is also accused of backing the so-called Mozambique National Resistance (MNR), which now

operates against the government in some out of 10 provinces. Security problems caused by the dissidents have greatly aggravated Mozambique's economic plight, marked by rising balance of payments deficits, and now compounded by the worst drought in 50 years.

The reorganisation of the government was launched by President Machel on May 21, in a marathon nine-hour speech, in which he criticised his own Ministers and top officials for failing to stay in touch with "the voices of the people."

The origins of the reshuffle, which includes three new ministers, four reassignments, five newly created deputy ministers, and a new ministry, go back to the April congress of the ruling party, Frelimo.

Delegates to the congress were outspoken in their criticism of the government's handling of key sectors, notably agriculture, and particularly scathing about desk-bound ministers and officials who

seldom ventured out into the countryside or on to factory floors. The Defence Ministry remains under Lt Gen Alberto Chipande, but his former deputy, Lt Gen Armando Guebuz, becomes Minister of the Interior. The ex-Interior Minister, Maj Gen Mariano Matsinhe takes over the reorganised Ministry of Security, and Col Oscar Monteiro moves from his post as acting Governor of Gaza province to take over the Justice portfolio. President Machel himself will play a greater role in defence matters, although day to day responsibility appears to remain with Lt Gen Chipande.

The new Minister of Economic Affairs is Sr Jacinto Veloso, hitherto the Minister of Security. Sr Jose Lobo, the ambassador to the United Nations, has been recalled to become Minister of Mineral Resources, while Sr Sergio Vieira is replaced. Agriculture Minister by Sr Joao Ferreira.

S. African court upholds migrant workers' rights

BY J. D. F. JONES IN JOHANNESBURG

SOUTH AFRICA'S Appeal Court yesterday dealt a damaging blow to the Government's influx-control policy when it ruled that migrant workers who have the same employer for 10 years thereby gain the right of permanent residence in the town.

In a keenly awaited judgment, the Appeal Court, in Bloemfontein, rejected the appeal of the East Rand Administration Board in the so-called "Rikhotso case".

The board had argued that black migrant workers cannot by definition work "continuously" because they have to renew their work contract each year; it would follow from this that no migrant worker could ever satisfy Section Ten of the Urban Areas Act, and win

permanent urban rights.

The importance of the judgment is that it will deter officials who, according to the liberal Black Sash Organisation, have been frequently ignoring earlier judgments in the Supreme Court, and enforcing their own interpretation of Section Ten. Many thousands of migrant workers are in a similar situation, and the Government has not concealed its fears, that the interpretation of the Urban Areas Act in the courts will permit a flow of blacks into the towns.

Many opponents of the Government believe that following yesterday's Appeal Court judgment the Government will pass new legislation to close what it sees as a loophole.

Chinese family planning shifts to sterilisation

By Mark Baker in Peking

ONE OF China's most important provinces has introduced a programme of compulsory abortions and sterilisations for couples who break the national policy of one-child families. The decision, believed to be the first on a province-wide basis, indicates that China is having serious problems in its campaign to contain population growth to less than 1.2bn by the year 2000.

The Guangdong provincial government, which administers 60m people bordering Hong Kong, has ordered that all women pregnant with a second child must undergo abortions and that women must use an intra-uterine device after one child. It has also ordered that couples with more than two children must accept sterilisation of either the husband or the wife.

In announcing the measures, Guangdong's deputy governor, Mr Wang Pingshan, said that the birth rate for couples with more than one child had risen to 19.2 per cent last year. He said the move on compulsory sterilisation was "an important technical policy" adopted in accordance with guidelines on population control stipulated by the state family planning commission.

China's national policy is that all urban residents and government employees may have only one child, apart from exceptional cases such as deformity in the first child. Rural dwellers are "strongly encouraged" to have only one child, but a second child is tolerated in some areas.

The policy has led to widespread infanticide, particularly in rural areas where first-born daughters are killed off by couples who still believe in the traditional importance of having a son.

An official survey by the All China Women's Federation, released last month, found that in some production brigades in Anhui province infanticide had led to an imbalance of five to one between male and female infants. In one brigade, of 100 families, 40 new-born girls were drowned in 1980 and 1981.

Labor fails to win Australian by-election

By Michael Thompson-Noel in Sydney

FAILURE to communicate its policies effectively, as well as this month's mini-budget, were among the reasons that Australia's Labor Government failed to win the week-end by-election in the Melbourne seat of Bruce, Labor strategists admit.

At the general election on March 5, Labor came within less than one percentage point of winning Bruce, held by the former Speaker of the House of Representatives, Sir Billy Snedden.

In Saturday's by-election, caused by Sir Billy's resignation, the swing back to the Liberal Party was approximately four percentage points.

On the other hand, no Australian Government has wrested a by-election victory from the opposition since 1920.

Earlier this month, Labor introduced a mini-budget, whose most controversial feature was a proposed tax on lump-sum superannuation payments.

Mr Bob Hawke, the Prime Minister, admitted at the weekend that failure to explain the superannuation issue adequately had probably cost the Government votes.

Yet the defeated Labor candidate, Mrs Heather O'Connor, went much further, saying the result was a warning to Labor that it would have to "communicate its policies much more effectively." Retention of Bruce was seen as a definite plus for the Liberals' new leader, Mr Andrew Peacock, who said the result reflected the voters' distaste for Labor's "broken election promises."

Japan achieves \$2.3bn surplus

BY JUREK MARTIN IN TOKYO

JAPAN recorded its second biggest monthly current account surplus in April principally because of sharp drops in both the volume and price of oil imports.

The surplus, \$2.3bn (£1.45bn) has only been once surpassed, by a \$2.4bn surplus in March, 1978, and is comfortably in advance of the \$1.9bn of March. A senior Bank of Japan official commented yesterday that this year's surplus will "easily double" the \$5.9bn of 1982. Some private analysts are predicting it could amount to \$1.9bn-\$2.0bn.

This is something of a mixed blessing for Japan. Mr Haruo Masekawa, Governor of the Bank of Japan lamented in a speech last week that the magnitude of the surplus was "unfortunate" since it tended to perpetuate the impression overseas that Japan was once again exporting unemployment.

However, tangible evidence is still a little slow in coming through. The Japan Foreign Trade Council, for example, reported yesterday that export contracts signed in April by the country's major trading houses were sharply down both on the previous month and on the same month of 1982.

On the imports side, the sharp April decline stems from an 11.6 per cent and a 7.0 per cent drop in the value and volume respectively of oil imports.

In a report last week, the Ministry of International Trade and Industry (MITI) projected that domestic demand for fuel oil products, which has been declining since 1980, would fall a further 3.9 per cent in the current fiscal year. Over the longer haul it forecast demand in 1987 only a mere 0.2 per cent above current levels.

Japan has also benefited from lower oil prices: the customs clearance price of under \$30 per barrel in the March-April period compares with over \$34 p/b a year ago, a prime reason for the substantial balance of payments improvement.

Japan's exports of four-wheel vehicles declined in April for the second consecutive month on a year-to-year basis, the Japan Automobile Manufacturers Association announced yesterday.

Association officials said vehicle exports fell 2.9 per cent from last year to a total of 511,636 units in April. The exports suffered a 5.9 per cent setback to 453,056 units in March compared to the same month last year.

Exports of passenger cars declined 1.5 per cent to 359,100 units, while those of trucks dropped 8.5 per cent to 149,554 units and those of buses fell 16.7 per cent to 2,982 units.

The surplus also masks the fact that Japan remains a substantial net exporter of capital, which, at times, has helped undermine the value of the yen. In April the long term capital balance was in substantial deficit by \$2.03bn only a little less than the \$2.23bn of March and could exceed last year's \$15bn level.

The merchandise trade surplus in April, down slightly on March to \$3.75bn, reflected exports of \$12.05bn, 0.7 per cent below the previous month, and imports of \$8.30bn, a large 13.2 per cent monthly decline.

The Japanese Government is convinced the year-long decline in exports has reached bottom and, with the impending recovery in the world economy, now constitutes one of the stronger elements in an otherwise still sluggish domestic economy.

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Assemblers seek bigger quotas on VCR kits

BY JOHN DAVIES IN WEST BERLIN

JAPANESE and European companies are intensifying their campaign for an easing of curbs on the assembly of jointly produced video cassette recorders (VCRs) in the European Economic Community.

The partners involved in the JET joint-venture in West Berlin and Newhaven, England, appeared confident they can mount a strong case for relaxation of the curbs next year. The partners are Victor Company of Japan (JVC), the developer of the VHS video recorder system, Thorn-EMI of the UK and Telefunken of West Germany, in which Thomson-Brandt of France recently acquired a 75 per cent stake.

Thomson-Brandt has also reached an agreement with JVC to make machines under licence. Under the three-year pact agreed by the European Commission and Japan in February,

Japan is to limit VCR exports to the EEC this year to 4,550m, including about 600,000 kits for local assembly.

JET will produce about 400,000 VCRs based on Japanese kits this year but hopes to reach 700,000 next year, with European content steadily growing to 35 per cent or more by the end of next year.

Other VCR local assembly operations are already under way or planned in Europe involving Sony, Matsushita, Hitachi and Sanyo.

These operations are all in competition with the entirely indigenous European operations of Philips and Grundig, which, however, are protected by clauses of the past guaranteeing European producers sales of at least 1.2m sets in the EEC and alignment of prices of imported and local produced VCRs.

An executive of Thorn-EMI

said in West Berlin yesterday that JET's case for relaxing the curbs on local joint ventures would go to the EC in about two weeks. He said he failed to see how the EC could stand in the way of expanded joint production with a higher local content.

As part of its mounting campaign for relaxation of curbs JET yesterday staged a formal opening ceremony at its West Berlin factory—one year after the actual start up.

Amid the whirl of television cameras the occasion was used to demonstrate official backing as Dr Richard von Weizsäcker, governing mayor of West Berlin, and Herr Wolfgang Kartte, president of the West German Cartel Office, expressed support for expansion of the project.

Herr Kartte indicated he was

unhappy with the restrictions in the EEC-Japan agreement, arguing that protectionism did not create economically efficient and assured jobs for the future.

Most outspoken however was Herr Josef Stöffels, chief executive of Telefunken, who said bluntly that further growth of the factory, now employing 450 workers, depended on a political decision to ease the Japan-EEC pact.

Mr Ichiro Shinji, president of JVC, said his company regretted that kits for assembly in West Berlin were included.

He believed JET was a model for future co-operation between Japanese and European companies.

The EEC and Japanese authorities are expected to meet towards the end of June to discuss operation of the pact. Other meetings are expected later this year.

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WORLD TRADE NEWS

European satellite makers worried by French delays

BY DAVID MARSH IN PARIS

CONCERN IS growing among European satellite companies about possible delays to France's ambitious plan for satellite television, which is adding to uncertainties about the order outlook among space manufacturers.

A Franco-German company, Eurosatellite, is already building the first French satellite for direct television broadcasting, TDF-1, ready to be launched in October 1983 on the Ariane launcher.

But the French government still has not announced a firm order for a second satellite, TDF-2, which would be needed for the country's planned satellite TV system to become operational. Since the satellite will take about three and a half years to build, there is a risk that France will not be able to keep to its target of starting satellite TV by 1986.

The main shareholders in Eurosatellite are Aerospatiale and Thomson, the French nationalised aerospace and electronics groups together with Messerschmitt of West Germany.

With TDF-2 costing an estimated \$60m (£38.7m) to build, the space companies suspect that the French government — although still committed in principle to satellite plans — has not announced a firm contract primarily for economic reasons.

Eurosatellite officials, who have been waiting for the order for months, say technical teams working on the project may be broken up unless the contract is confirmed soon.

The delay is also linked to uncertainties in the French Government's policies over the whole future of satellite broadcasting, in particular how it will fit in with plans to expand cable TV.

Cable transmission centres, which can receive relatively low powered signals from space on large antennae and re-transmit them to homes via ground networks, are expected to grow rapidly in coming years. For this reason television satellites may not need to be as high-powered as those envisaged under Franco-German plans at the end of the 1970s.

Significantly, Germany too — for whom Eurosatellite is also building a TV satellite, TV-SAT — has also not decided on a second order to set up an operational system.

Showing the shift in satellite priorities as Aerospatiale now sees its collaboration with Ford Aerospace of the U.S. in building medium-sized telecommunications satellites as more important than that with Messerschmitt in making large ones purely for direct TV.

According to M. Francois Turck, sales and marketing manager in Aerospatiale's space division, out of a projected 200 satellites to be ordered worldwide over the next 10 years, two-thirds will be in the medium range.

Germany's main satellite partner at the moment is the planned advanced Post Office satellite for telecommunications which a German consortium led by Messerschmitt and Siemens had originally been expected to build. Matra, however, is also bidding for the contract, claiming it can do the work more cheaply.

UK-Swiss sign pact on trade standards

By Anthony McDermott in Bern

BRITAIN AND Switzerland yesterday signed an agreement in principle to accept each other's certificates covering trade standards.

The aim of this agreement is to increase the volume of trade in "high technology" products by easing some of the technical standards required, especially by Switzerland. It would also help to boost the volume of all trade between the two countries which has recently declined.

The agreement was reached during the visit of Lord Cockfield, the British minister of trade, the first since Sir (then Mr) John Nott in February 1980. On the Swiss side, it was signed by Mr Kurt Furgler, a Federal Councillor (Cabinet Minister) and head of the Federal Department of Public Economy.

A communique giving details on the agreement appeared to recognise that for some British exporters (especially those of electrical goods) the Swiss market is important, but hampered by standards requirements which imposed "some difficulties and extra expenses."

It acknowledged that a final agreement on the problems would have to be reached within the General Agreement on Trade and Tariffs (GATT), the Geneva-based UN organisation which is responsible for the elimination of technical obstacles to trade. The agreement would also have to be made within the terms of the arrangement between the European Community and the European Free Trade Association (EFTA), of which Switzerland is a member.

Switzerland is Britain's 11th largest export market and fifth largest supplier.

Bridget Bloom reports on restrictions facing Europe's defence industry

Marconi falls foul of U.S. customs

A FEW WEEKS ago Marconi Avionics wanted to send a high technology product from the company's plant in Atlanta, Georgia, to its head office in Rochester, Kent. The equipment had started life in the UK and had been exported to the U.S. — but before it could make its journey home again it fell foul of U.S. customs officials.

In recent months they have been instructed to tighten controls on exports of high technology to Europe as part of an overall effort to stem the flow of U.S. industrial know-how to the Soviet bloc.

The fate of MAV's product, which took six weeks to be liberated from the customs officers' clutches, is one of the more bizarre examples of how European companies can be affected by U.S. legislation and bureaucratic practice, characterised recently by a British Minister as "rampant protectionism and restrictionism."

The two-way street in defence trade which governments on both sides of the Atlantic officially support has long been the butt of European jokes, for the U.S. sells on average seven or eight times as much to Europe as it buys from it. But in the last few months, the muted criticisms have swelled to a chorus of complaints, from both companies and European Governments that the U.S. Congress and the Reagan Administration are seriously in danger of undermining transatlantic defence trade, industrial co-operation, and the prospects of mutual defence.

Ironically, MAV, a member of the GEC group and responsible

Europe is becoming increasingly critical of what it condemns as U.S. protectionism in the field of defence high technology. While—in theory at least—both parties subscribe to agreements of free trade, in practice the U.S. is thought to sell as much as eight times the amount of equipment to Europe as it buys from it. The U.S. justifies its trading restrictions in the grounds of security.

on its own for 3 per cent of the total world market for avionics, MAV boasts it has supplied "more of these than the rest of the world's combined production"—over 3,500 in all, with the 1,000th being delivered to General Dynamics for use in its F-16 fighter a year ago.

So far, it says U.S. sales of the system amount to some \$300m or about two-thirds of total company exports to the U.S. over the last decade. Mr Pateman lists three keys to MAV's success in the U.S. market.

● To start with, he says, "you have to be technically better and cheaper than the other guy"—though direct exports on that basis are possible only while a company remains small and does not have competition to U.S. companies.

● Once such competition exists, a manufacturing base in the U.S. is essential—MAV opened a plant at Atlanta, wholly owned, but alternating UK and U.S. nationals as company president, 21 years ago to help it through its first major contract with Lockheed. Other smaller factories have been opened at Fort Worth, Seattle and Dayton, Ohio, following contracts.

He is clearly delighted that MAV, at the sharp end of high technology in the UK and with substantially increased sales over the last three years, has bucked the trend in the current UK recession.

The efforts of U.S. bureaucrats notwithstanding, the company is apparently doing the same on the two-way street.

● MAV believes it is vital for success to get in very early on a U.S. military project. This happened at the research and development stage with the head up display and subsequently with other key projects. In 1961, for example, the company won a development contract, worth only \$5m, for the design and development of prototype air data computers. The aim is to equip the 27 variants of aircraft the U.S. Navy and Air Force operate with a maximum of five highly interoperable computers. Ultimate orders could be worth hundreds of millions of dollars, the company believes.

Mr Pateman describes himself as an old-fashioned believer in competition which "suits out the men from the boys." He does not believe in joint ventures, will not license his products for manufacture in the U.S. ("that creates competition") though the company has recently signed agreements to manufacture U.S. high tech products here.

He is sharply critical of collaborative defence projects like the Tornado fighter bomber, in which MAV is involved, maintaining that they are usually three times as costly as they need be.

He is clearly delighted that MAV, at the sharp end of high technology in the UK and with substantially increased sales over the last three years, has bucked the trend in the current UK recession.

The efforts of U.S. bureaucrats notwithstanding, the company is apparently doing the same on the two-way street.

Battle for Mideast aircraft orders

BY MICHAEL DONNE IN PARIS

THE BATTLE between the European Airbus Industrie air-line-building group and Boeing of the U.S. for new customers worldwide is now being concentrated on the Middle East, where both Egypt, the national airline of Egypt, and Middle East Airlines (MEA) of the Lebanon are in the market for new aircraft.

Airbus is seeking an order for at least five A-310 twin-engine short to medium range aircraft, worth about \$200m

(£129m), including spares, from Egypt, while MEA is also understood to be interested in the purchase of five aircraft.

In each case, the rival is the Boeing 767 twin-engine aircraft, designed for the same type of role.

Both aircraft are already in service — the Boeing 767 with a number of U.S. airlines and the Airbus A-310 with Lufthansa and Swissair — so that comparable details of their performances are readily available.

Despite sales claims by the rival manufacturers, the performances are only marginally different, and the victories in the current sales battle seem likely to go to the manufacturer who can offer the best financing deals.

Although the basic terms of a long-standing U.S.-European agreement are 12 per cent interest with a maturity of 10 years, there are additional financial inducements

to the Airbus side. The performance is only marginally different, and the victories in the current sales battle seem likely to go to the manufacturer who can offer the best financing deals.

Although the basic terms of a long-standing U.S.-European agreement are 12 per cent interest with a maturity of 10 years, there are additional financial inducements

SHIPPING REPORT

Tanker brokers report sharp fall in activity

BY LYNTON McLAIN

SPASMODIC TRADING characterised the tanker charter market last week with activity considerably reduced compared with the previous week, when tanker brokers reported a steady increase in shipments of crude oil, especially from the Gulf.

At the same time, the latest trading reports show a preponderance of vessels trading almost exclusively on a part-cargo basis. This was a "surprising feature of the market last week," according to Galbraith Wrightson Tankers.

Almost every tanker chartered last week had traded "in another tanker's size range," and tankers trading as "full and complete vessels" were fast disappearing from the market. There was not much business

from major oil companies in the Gulf last week. A 550,000 tonne vessel took a part-cargo of 203,000 tonnes to Japan at Worldscale 24, "the very bottom of the market," the company said.

The only other interest in trading out of the Gulf was for smaller cargoes, with a 113,000 tonne vessel chartered to the east at Worldscale 43 and an 84,000 tonne vessel with a part-cargo of 50,000 tonnes from Kharg Island to the Mediterranean, chartered at Worldscale 50.

Trade out of Indonesia was "average" last week, for eastern and western destinations. West African markets were less active than in the previous week. In the Mediterranean, trade showed some improve-

ment, but the Caribbean area continued to be a disappointment, with tanker owners finding it difficult to find suitable work.

The UK continued to provide a "fair opportunity" for tanker owners, with vessels of up to 100,000 tonnes operating out of the area.

World Economic Indicators

	FOREIGN EXCHANGE RESERVES			
	U.S. \$m	Jan. '83	Dec. '82	Nov. '82
U.S.	8,600	7,220	7,490	7,121
UK	3,650	3,508	3,255	11,957
W. Germany	43,397	42,303	40,626	22,088
Japan	17,797	16,544	15,477	23,633
Italy	12,771	13,432	13,380	13,314
Netherlands	9,379	9,795	9,438	9,855
Belgium	3,774	3,773	3,270	2,862
France	15,291	17,567	14,594	16,502

Source: IMF

Renault Acceptance B.V. Amsterdam

DM 150,000,000

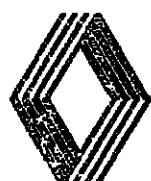
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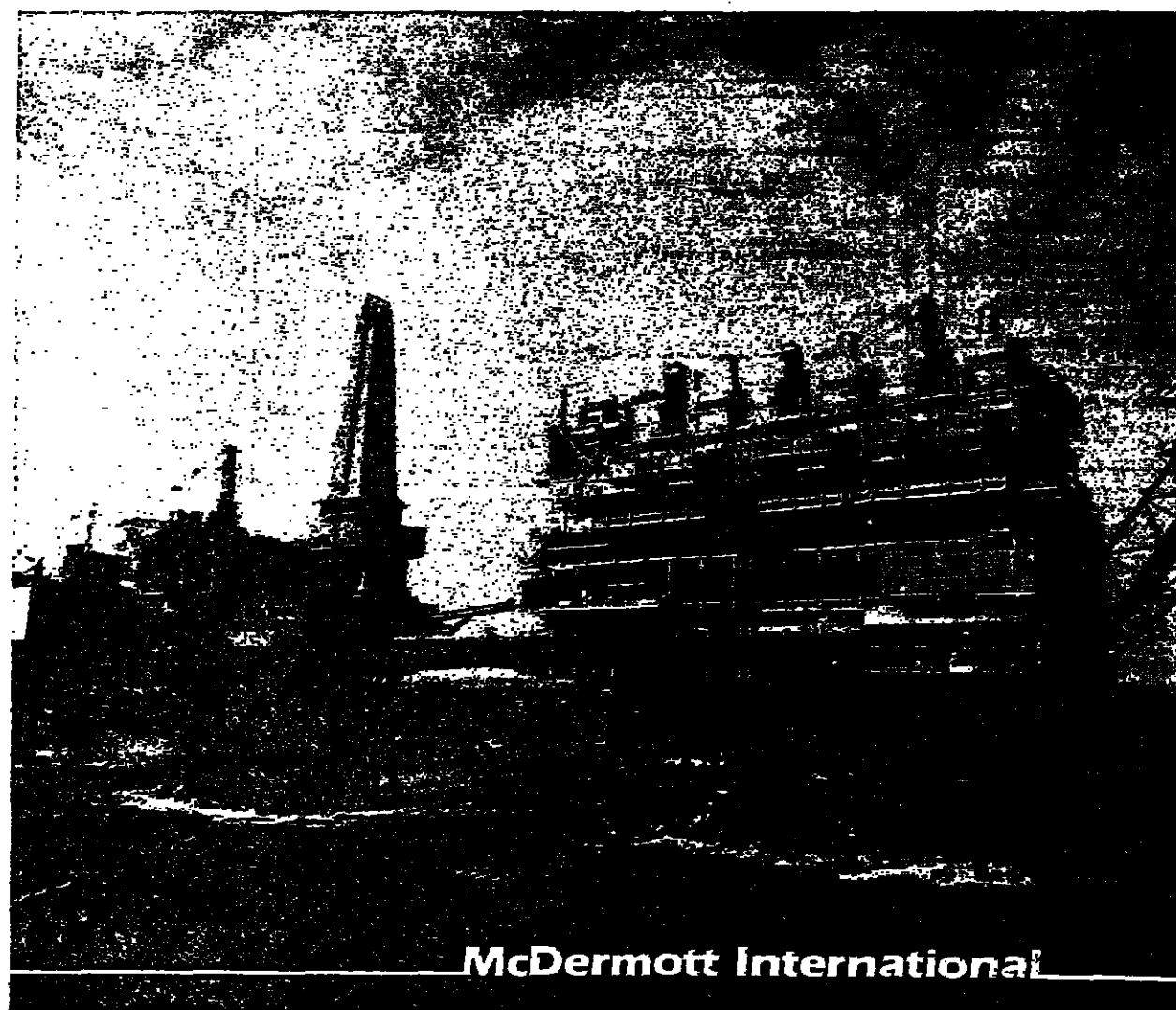
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STATISTICS: CIVIL AVIATION

Struggle continues for world airlines

AFTER a period of sustained high growth rates in the 1970s, traffic growth on the world's scheduled airlines slowed to a crawl in the 1980s, with an annual growth rate of 3 per cent in passenger kilometres performed (number of passengers multiplied by distance travelled) with no growth in the actual number of passengers carried. This trend reflects the recession in the world economy during the past two years as well as high inflation rates in the 1979-81 period and fluctuating exchange rates.

These factors plus the long recent period of high interest rates—still historically high in real terms—are clearly shown in the financial operating results of the world's scheduled airlines.

According to ICAO, operational profits of \$3,000m in 1978 had turned into a loss of \$600m by 1981. IATA, whose members cover about 70 per cent of total

Commentary by Our Economics Staff: data analysis by Financial Times Statistics Unit; charts and graphs by Financial Times Charts Department

scheduled airline services, indicate a worsening position in 1982 and 1983, particularly after interest payments are an increasing burden and are expected to grow to nearly \$2,000m by 1984. These payments, plus the need to purchase replacements for obsolete aircraft, are a major concern to the airlines. The forecast upturn in growth of real GDP in the major industrialised countries in 1983-84, and the easing of inflationary pressures, are positive factors although interest rates still continue to edge down slowly.

The substantial increase in

aviation fuel prices in real terms since 1973 has resulted in fuel costs now representing about 30 per cent of total operating expenses compared with about 10 per cent 10 years ago; this puts increasing emphasis on fuel economy measures through more efficient design and selection of aircraft route revisions.

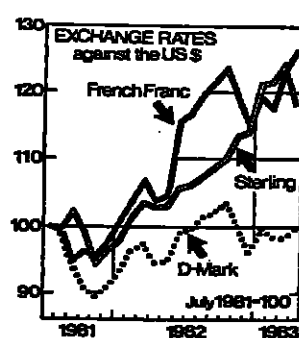
Load factors on international services continued to exceed the break-even level required in recent years; although the gap is closing, yields will need to be increased or costs reduced. On a unit cost basis there is now little difference between revenue and operating expenses. This is now an established industry where there is unlikely to be any dramatic technological breakthrough to increase productivity and/or reduce costs.

The North Atlantic route continues to dominate the scheduled services—37 per cent of IATA operations—and with an increasing passenger load factor. However, figures for 1982 show a drop for the first time in the number of passengers carried, perhaps in part indicating a more marked slowing down of the rate of growth in established markets.

Orders and deliveries of new aircraft paralleled the recessionary trend in traffic and the world economy; the forecast upturn in the world economy plus the need to replace ageing aircraft could be better news for manufacturers. Industry estimates put the need for investment in replacement for obsolete aircraft at \$80bn up to 1985 with another \$100bn to meet anticipated growth.

Among the international airports, London Heathrow continues to handle nearly twice as much traffic as any other international airport, followed by John F. Kennedy in New York.

1. General Economy



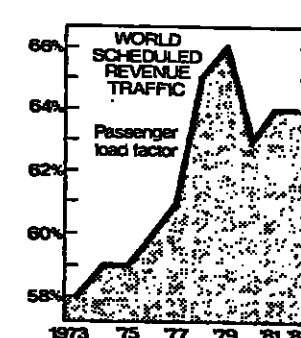
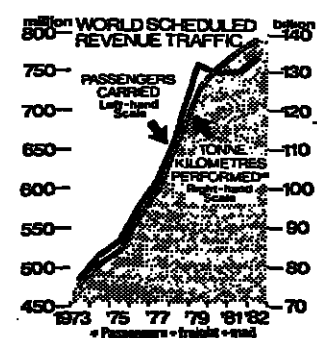
INFLATION RATES (ANNUAL AVERAGES)				
Year	U.S.	UK	Germany	Japan
1973	6.3	9.1	6.9	11.8
1974	10.9	16.0	7.0	24.3
1975	9.2	24.2	5.9	11.9
1976	5.8	16.5	4.3	9.3
1977	6.5	15.9	3.4	8.1
1978	7.5	8.3	2.8	3.8
1979	11.3	13.4	4.1	3.6
1980	12.5	18.0	5.5	8.0
1981	10.4	11.9	5.9	4.9
1982	6.2	8.6	5.3	2.4
1983*	4.4	5.5	3.5	2.1

* Forecasts: Phillips & Drew, NIER, OECD

REPRESENTATIVE MONEY MARKET RATES (end of period)				
Year	U.S.	UK	Germany	Japan
1976	4.75	14.38	4.80	3.60
1977	6.84	6.50	3.60	3.60
1978	10.53	12.50	3.70	3.70
1979	13.70	17.00	8.70	8.70
1980	17.42	14.75	18.20	18.20
1981	12.78	15.49	10.50	10.50
1982	8.81	10.50	6.20	6.20
1983*	8.30	11.31	5.68	5.68

* Latest available. Source: Morgan Guaranty

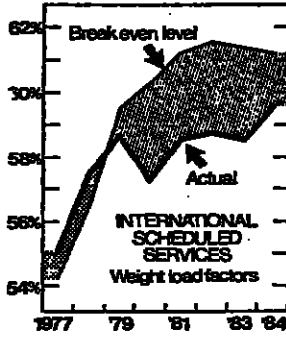
2. Traffic



INTERNATIONAL SCHEDULED AIRLINES 1981			
Scheduled services	Passenger kilometres performed—millions	Number	%
International	483,900	52	
Domestic	394,700	43	
Non-scheduled services			
International	38,500	4	
Domestic	5,700	1	

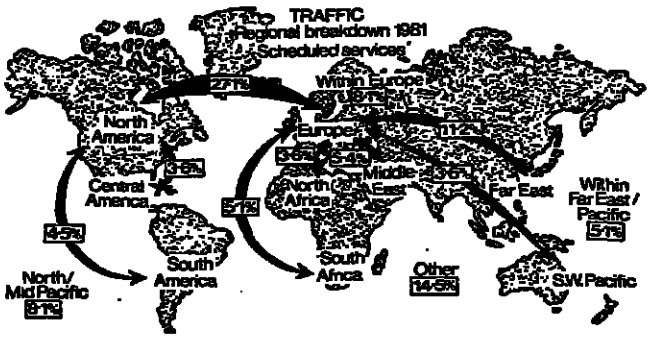
Source: ICAO

Traffic

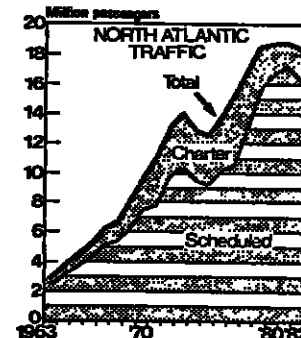


UNIT OPERATING COSTS				
Year	U.S. cents per available tonne-kilometre	Index 1977 = 100	OECD inflation 1977 = 100	
1977	25.9	100.0	100.0	
1978	29.0	112.0	108.2	
1979	33.8	130.5	118.8	
1980	40.0	154.4	134.1	
1981	40.0	154.4	148.3	
1982	41.0	158.3	160.2	
1983*	43.5	167.9	171.0	
1984*	46.6	180.0	182.1	

* Forecasts. Source: IATA/OECD



3. North Atlantic



AVERAGE SEATS AND PASSENGERS PER AIRCRAFT			
Year	Passengers	Seats	Load factor
1972	130	218	60
1973	136	235	58
1974	139	240	58
1975	140	248	57
1976	158	260	61
1977	164	270	61
1978	186	282	66
1979	198	296	67
1980	212	316	67
1981	215	312	69

Source: IATA

4. Fleets

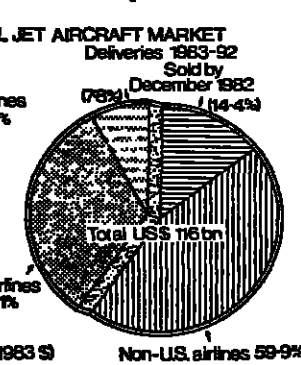
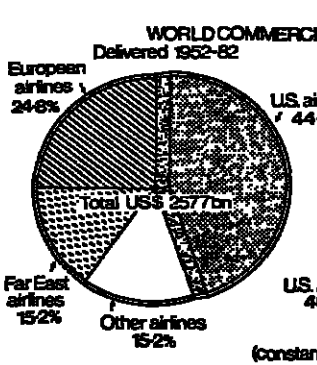
TURBO-JET ORDERS 1972-1981				
Year	Four-engine	Three-engine	Two-engine	
1972	27	176	69	
1973	31	147	133	
1974	21	120	105	
1975	15	62	88	
1976	13	129	79	
1977	23	167	114	
1978	69	196	409	
1979	61	166	315	
1980	51	95	292	
1981	19	37	239	

Source: ICAO

PRINCIPAL TURBO JET AIRCRAFT IN USE—END 1981				
Manufacturer/model	No. of aircraft			
Boeing B-727	1680			
Douglas DC-9	915			
Boeing B-737	735			
Boeing B-747	495			
Boeing B-707	495			
Douglas DC-10	350			
Douglas DC-8	340			
Lockheed L-1011	215			
Airbus Industrie A-300B	155			
British Aerospace	155			
BAC One-eleven	155			

Source: IATA

Markets

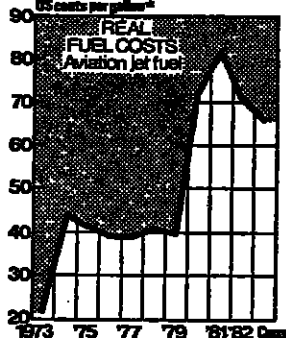


5. Airports

RANKING BY PASSENGERS (000) 1981			
City-Airport	Total	Intl only	
Chicago	37,992	London	22,536
Atlanta	37,594	(Hithrow)	
Los Ang	32,723	New Yk	13,333
London	26,401	(JFK)	
(Hithrow)		Frankfurt	12,007
New Yk	25,755	London	9,717
(JFK)		Paris	9,517
Dallas	23,534	Osaka	8,725
Denver	22,602	Miami	8,125
Tokyo	21,235	Rome	6,319
San Fran	19,848	Toronto	6,300
Miami	19,848	Los Ang	5,442

Source: ICAO

6. Fuel Costs



7. Finance

SCHEDULED AIRLINES current U.S.\$m				
Year	Operating results	per cent of revenue		
1972	806	3.5		
1973	1,195	4.4		
1974	792	2.4		
1975	730	1.9		
1976	2,156	5.0		
1977	2,628	5.2		
1978	3,100	5.2		
1979	726	1.0		
1980	-635	-0.7		
1981	-600	-0.6		

Source: ICAO

IATA SCHEDULED INTERNATIONAL SERVICES U.S.\$m				
Year	Operating Revenues	Operating Costs	Operating Result	Result after Intrust
1977	19,300	18,450	850	300
1978	23,450	22,500	950	400
1979	28,800	28,450	350	-350
1980	35,600	36,500	-900	-1,850
1981	36,940	37,190	-250	-1,660
1982	39,020	39,280	-260	-1,870
1983*	44,010	44,380	-370	-1,730
1984*	50,110	49,670	440	1,840

* Forecasts. Source: IATA

SCHEDULED AIRLINES—TRAFFIC/FINANCE COEFFICIENTS U.S. cents				
Average per tonne kilometre performed	1973	1976	1979	1981
Revenues	46.1	58.8	69.2	72.9
Passenger	38.8	50.3	60.1	74.9
Total	37.1	47.8	59.5	75.4
Operating expenses	19.7	26.6	34.7	42.2
Revenues available	18.8	25.3	34.4	42.4
Operating expenses				

Source: ICAO

8. Safety

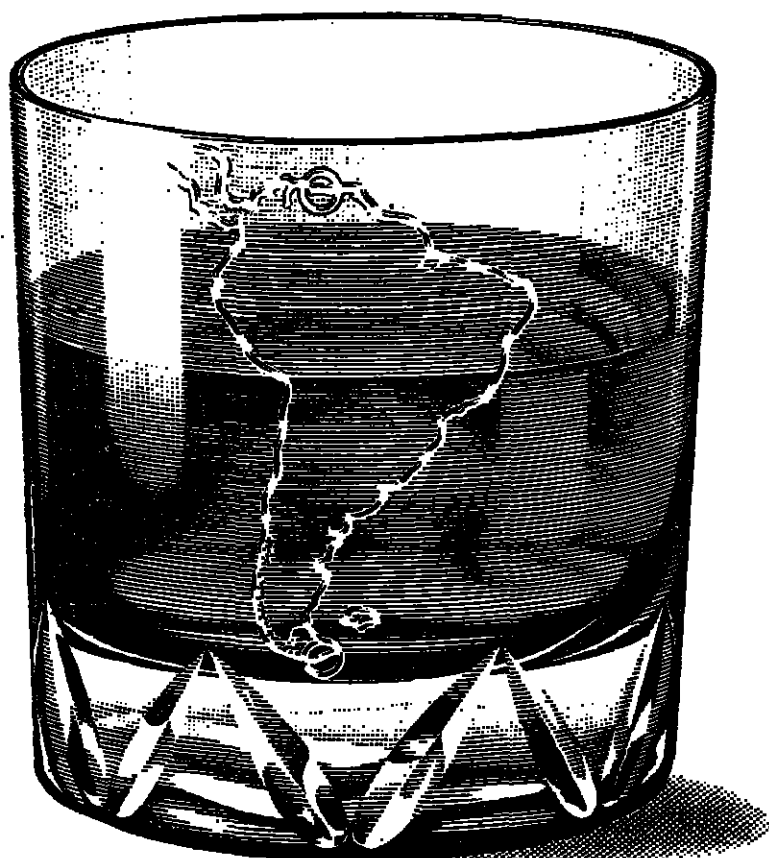
SAFETY			
Year	Aircraft accnts	Passgr fatalities	per 100m psngr km
1972	42	1,210	0.26
1973	36	862	0.17
1974	29	1,299	0.24
1975	20	443	0.08
1976	20	724	0.12
1977	24	516	0.07
1978	25	755	0.09
1979	31	878	0.10
1980	21	812	0.09
1981	17	350	0.04

Source: ICAO

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The following is the full text of the seven-nation summit at Williamsburg:

OUR NATIONS are united in their dedication to democracy, individual freedom, creativity, moral purpose, human dignity, and personal and cultural development. It is to preserve, sustain and extend these shared values that our prosperity is important.

The recession has put our societies through a severe test, but they have proved resilient. The significant success has been achieved in reducing inflation and interest rates; there have been improvements in productivity; and we now clearly see signs of recovery.

Nevertheless, the industrialised democracies continue to face the challenge of ensuring that the recovery materialises and endures, in order to reverse a decade of cumulative inflation and reduce unemployment. We must all focus on achieving and maintaining low inflation, and reducing interest rates from their present too-high levels. We renew our commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditure.

We recognise that we must act together and that we must pursue a balanced set of policies that take into account and exploit relationships between growth, trade, and finance, in order that recovery may spread to all countries, developed and de-

veloping alike. In pursuance of these objectives we have agreed as follows:

● Our governments will pursue appropriate monetary and budgetary policies that will be conducive to low inflation, reduced interest rates, higher investment and, greater employment opportunities, particularly among the young.

● The consultation process initiated at Versailles will be enhanced to promote convergence of economic performance in our economies and greater stability of exchange rates.

We agree to pursue closer consultations on policies affecting exchange markets and on market conditions. While retaining our freedom to operate independently, we are willing to undertake co-ordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful.

● We commit ourselves to halt protectionism and, as recovery proceeds, to reverse it by dismantling trade barriers. We intend to monitor this commitment. We shall give new impetus to resolving current problems.

We will actively pursue the current work programmes in the General Agreement on Tariffs and Trade (GATT) and the Organisation for Economic Co-operation and Development (OECD), including trade in the services and in high technology products.

For the medium term we should work to advance further trade lib-

eralisation negotiations in the Gatt with particular emphasis on expanding trade with and among developing countries. We have agreed to continue consultations on proposals for a new negotiating round in the Gatt.

● We view with great concern the international financial situation, and especially the debt burdens of many developing nations. We agree to a strategy based on: effective adjustment and development policies by debtor nations; adequate private and official financing more open markets; and worldwide economic recovery.

We will seek early ratification of the increase in resources for the International Monetary Fund and the General Arrangements to Borrow. We encourage closer co-operation and timely sharing of information among the countries and among the international institutions, in particular between the International Monetary Fund, the International Bank for Reconstruction and Development (IBRD) and the Gatt.

● We have invited ministers of finance, in consultation with the managing director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might in due course, be played in this process by a high level international monetary conference.

● The weight of the recession has fallen very heavily on developing countries and we are deeply concerned about their recovery. Restor-

ing sound economic growth while keeping our markets open is crucial. Special attention will be given to the flow of resources - in particular official development assistance - to poorer countries, and for food and energy production, both bilaterally and through appropriate international institutions. We reaffirm our commitments to provide agreed funding levels for the international development agency.

We welcome the openness to dialogue with the industrialised countries evinced at the recent conference of the non-aligned movement in New Delhi and the group of 77 in Buenos Aires, and we share that commitment to engage with understanding and co-operation in the forthcoming meetings of the UN conference on trade and development in Belgrade.

● We are agreed upon the need to encourage both the development of advanced technology and the public acceptance of its role in the report of the working group on technology, growth and employment which was set up at Versailles last year, and to encourage the progress made in the 18 co-operative projects discussed in that report.

We will follow the implementation and co-ordination of work in these projects and look forward to receiving a further report at our next meeting.

● We all share the view that more predictability and less volatility in oil prices would be helpful to world economic prospects.

We agreed that the fall in oil prices in no way diminishes the importance and urgency of efforts to conserve energy, to develop economic alternative energy sources, to maintain and where possible improve contacts between oil-exporting and oil-importing countries, and to encourage the growth of indigenous energy production, in developing countries, which at present lack it.

● East-West economic relations should be competitive with our security interests. We take note with approval of the work of the multilateral organisations which have in recent months analysed and drawn conclusions regarding the key aspects of East-West economic relations. We encourage continuing work by these organisations, as appropriate.

● We have agreed to strengthen co-operation in the protection of the environment, make better use of natural resources, and in health research.

Our discussions here at Williamsburg give us new confidence in the prospects for a recovery. We have strengthened our resolve to deal co-operatively with continuing problems so as to promote a sound and sustainable recovery, bringing new jobs and a better life for the peoples of our own countries and of the world.

We have agreed to meet again next year and have accepted the British Prime Minister's invitation to meet in the United Kingdom.

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Indonesian spending cutback threatens hydro contracts

BY RICHARD COWPER IN JAKARTA

CONTRACTS worth more than £100m to Balfour Beatty and Bovis are threatened by the Indonesian Government's latest moves to cut expenditure because of reduced oil revenues.

Dr Subroto, Minister of Mines and Energy, told a parliamentary committee last week that the Mirca hydroelectric scheme in central Java was among projects worth \$10bn which would be "scaled down, delayed, or continued with as minimum commercial funding as possible."

He gave no details on how projects might be rescheduled. A little more than a year ago Balfour Beatty was awarded a contract worth more than £50m for the civil engineering work, and Bovis one of £31.5m for the supply and installation of turbines, water penstocks and gates. Also participating in the project valued at about \$350m (nearly £220m) overall are the Swedish concerns Skanska and Asea.

Mr Keith Palmer, Balfour Beatty's project manager at Mirca, said yesterday that his company had yet to be informed, officially or unofficially, of the Indonesian Government's intentions. Lengthy delays would, without doubt, increase the cost to Indonesia considerably. Construction work has been under way for the past six months. Economists and planners familiar with the project say that the announcement could result in serious complications for the companies involved. There seems little likelihood that the British and Swedish Governments will be able to grant soft loans of sufficient magnitude to allow the project to go ahead as scheduled. Most of the British finance for the project was arranged by Barclays International with backing from the Export Credits Guarantee Department and the Overseas Development Authority. Others projects which Dr Subroto revealed would be affected by the cuts are a \$700m power station at Surlaya in West Java, with its capacity to be halved; a \$100m coal mining project at Ombilin in South Sumatra which is to be scaled down in size; and a string of diesel power generating stations and rural electricity transmission schemes costing almost \$500m.

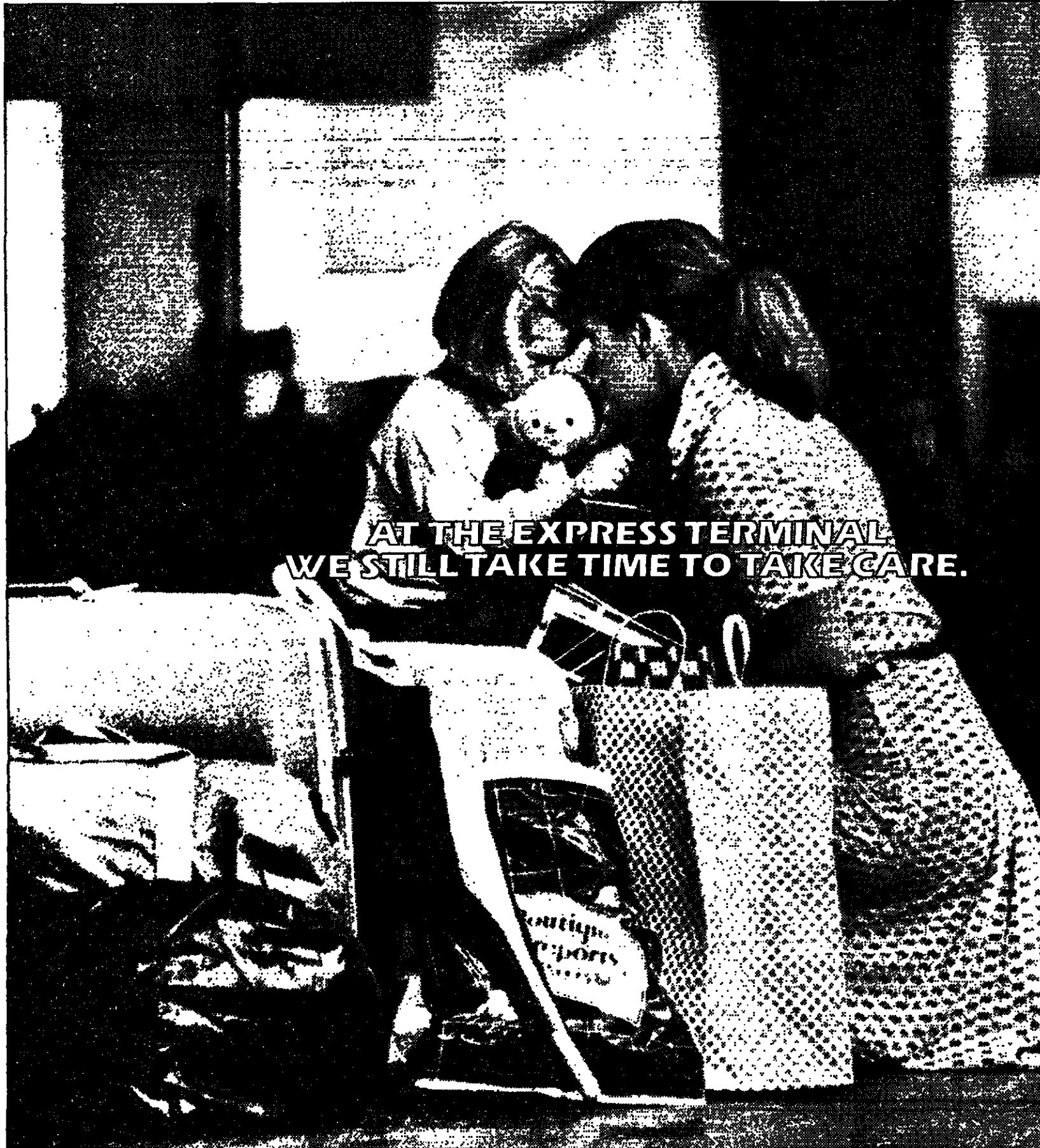
Many major power projects for which contracts had yet to be awarded would be postponed indefinitely, he said.

The Government has also shelved the construction of 10 new sugar mills according to a separate announcement by Mr Subroto, chairman of the Capital Investment Co-ordination Board. They were to have involved public expenditure of more than \$100m.

These projects will now be open for the private sector to undertake, but there seems little chance that they will go ahead now. A number of Japanese companies had been singled out as contractors.

Indonesia is seeking \$2bn in foreign aid to help finance a current account deficit projected at \$6.5bn for the current financial year ending next March.

The decisions on rescheduling another \$5bn worth of projects, in addition to others with a similar total value already cut, follows President Suharto's order nearly two weeks ago that all projects requiring commercial credits or foreign exchange should be renegotiated.



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Labour Party loses ground in opinion polls

BY PETER RIDDELL, POLITICAL EDITOR

THE Conservative Party has slightly improved its already strong position since the general election campaign started. Labour has started to slip back in the past few days and there are tentative signs of a pick-up in the rating of the SDP/Liberal Alliance.

These are the main conclusions from the accompanying table listing the 12 nationwide polls published in the week to Sunday.

Many of the fluctuations in the figures are due to random statistical variations in the samples of this size but some trends are clear.

● The Conservatives have maintained an unprecedentedly large lead with only minor variations, in the past three weeks. If anything, the gap has increased marginally as four out of the six main polling organisations report a rise in the Tory share of the vote in the past week to 10 days.

● The fractional improvement in Labour's position in the week to May 21 has now been reversed. Five out of the six main polling groups show a fall in Labour's rating in their latest surveys, the exception being a poll taken before the row over the party's nuclear weapons policy.

● A slight pick-up in the position of the Alliance is suggested by the polls published at the weekend, but the rise is well within the statistical margin of error and it does not yet confirm a new trend.

These conclusions were underlined in a Harris Research poll of 44 key marginal seats for the Weekend World television programme. This survey, undertaken between May 23 and 27 gave the Tories a lead of six points, up from two points a week earlier. This equivalent to a 13 point lead nationally.

A separate Harris survey of more than 800 people in 20 seats where the Liberals came first or second at

BRITAIN GOES TO THE POLLS



the last election (all now being contested by Liberals) shows a clear improvement in the Alliance position - up to 36 per cent compared with 28 per cent in a similar survey a week earlier.

Over the period the Tory share fell from 48 to 43 per cent, with the Labour rating down from 24 to 20 per cent.

Apart from voting intentions, the latest polls also suggest that Labour is losing in voter preferences on the key issues, notably defence and inflation.

OPINION POLLS						
Poll and date	Sample size	Cons	Lab	All- ance	Others	Cons lead
General Election May 5, 1979		45	38	14 (Lib)	3	7
Range of 11 taken May 11/20		44/49	30/37	16/22	0/3	7/16
Gallup (Telegraph) May 20/23	1,700	48	33	18	1	15
ICOFI (Star) May 23	1,068	51	33	15	1	18
Audience Selection (TV-AM) May 23	1,071	45	32	20	3	13
WOP (Mail) May 23/24	1,104	52	33	14	1	19
Audience Selection (Sun) May 24	557	45	32	21	2	13
Marplan (Guardian) May 23/25	1,422	47.5	32.5	19	1	15
Harris Research (TV-Eye) May 24/25	1,034	48	33	18	1	15
ICOFI (Express) May 25	1,088	51	28	19	2	22
ICOFI panel (Sunday Times) May 24/25	1,023	46	30	23	1	16
Gallup (Telegraph) May 24/28	2,015	49	31.5	18	1.5	17.5
Harris Research (Observer) May 26/27	1,029	47	30	21	2	17
Marplan (Sunday Mirror) May	1,325	49.5	31	19	0.5	18.5

Uncertain allegiance of young jobless

BY ALAN PIKE

YOUNG PEOPLE eligible to vote for the first time are credited with having played a decisive part in determining the outcome of some previous general elections.

This year's first-time voters have an additional distinction. An overwhelming proportion of them will either be unemployed on June 9, or will already have had some experience of unemployment. If unemployment is, understandably, a central issue in this election it should be even more of one among the young - 1.3m people under 25 are currently registered as unemployed.

A National Opinion Poll of more than 1,000 first-time voters commissioned by the BBC this week, confirmed the central significance of unemployment - 79 per cent identified it as the most important issue. For many it was a matter of personal experience.

The sample included 23 per cent

of unemployed young people and 37 per cent who had been unemployed at some time during the past year. In spite of young people's concern about unemployment, the poll did not provide evidence that too many of them hold the present Government to blame.

A majority said that they intended to vote Conservative - in contrast with a poll of the young unemployed in the Economist Intelligence Unit's "Coping With Unemployment" survey last year, which gave Labour the greatest support.

What is far less certain is how many of the young unemployed will vote at all. Ken Roberts, in the sociology department of Liverpool University, who investigated the attitudes of unemployed 16-20 year olds in 1980-81, commented this week: "Eighty per cent said they would not vote and were quite vociferous in saying that they had no interest in politics."

Tories reopen attack on 'dangerous Alliance'

BY IAN RODGER

MR CECIL PARKINSON, the Conservative Party chairman, reopened his party's attack on the SDP-Liberal Alliance at the weekend, calling it a "dangerous diversion" that might lead to a Labour victory.

Referring to the Alliance summit meeting at the weekend Mr Parkinson said at yesterday's Conservative press conference: "It was staged for your benefit and there is very little significance to it except that it got them a lot of publicity."

Mr Parkinson said the Labour Party remained "far and away" the greatest threat to the Tories in the election, and complained that the Liberal Party, "which is what the Alliance is rapidly becoming," had helped Labour in every election.

Mr Nigel Lawson was pressed to elaborate on the Conservatives' commitment to increase competition in, and attract private capital to, the gas and electricity industries.

He distinguished between the public utility parts of these industries - the transmission and distribution of electricity and gas - and the other parts, indicating that privatisation of the utility parts would be "very complicated."

The Government would have to set up a full-scale regulatory system because it was not in favour of private monopolies that would exploit the consumer.

Jenkin casts doubt on deal between BSC and U.S. Steel

BY IAN RODGER

MR PATRICK JENKIN, the UK Industry Secretary, has expressed doubts that a satisfactory deal can be concluded under which the British Steel Corporation (BSC) would supply crude steel to the U.S. Steel Corporation on a long-term basis.

In an interview after yesterday's Conservative press conference, Mr Jenkin said he favoured in principle the internationalisation of the steel industry in ways such as the proposed deal, rather than have many countries protect their own steel-makers.

But the British Government had been taken aback by the suggestion that BSC would have to make a very large initial investment in its deal with U.S. Steel. There have been reports that this might be as large as £100m.

"That would be very difficult for the British Government," Mr Jenkin said. "And why can't the Americans make a balancing investment in us?"

He was also concerned that deliveries of British steel under the pro-

posed arrangement might fall foul of U.S. Government regulations.

"It's all very well to get assurances from the present Administration, but we would want something very strong indeed for the longer term," he said.

If the deal goes ahead, it would probably mean that all the steel produced at Ravenscraig would go to the U.S. and the plant's big strip and plate mills, employing some 1,200 people, would have to be closed.

But Mr Jenkin was not yet prepared to face this consequence. "That is another question, and we would have to look at it very carefully. Ravenscraig is doing extremely well now," he said.

Mr Jenkin said that regardless of the outcome of negotiations with U.S. Steel, steelmaking at Ravenscraig would continue, in line with the Government's policy statement last December.

Negotiations between BSC and U.S. Steel have been under way for some months. The idea is to phase out crude steel-making at U.S.



Jenkin: seeking a long-term assurance

Steel's Fairless works near Philadelphia and use up to 3m tonnes per year of British steel in its finishing mills, which would be modernised.

Trade unions in both the U.S. and Britain have been opposing the plan vigorously because of the job losses involved. But steelmakers from several other countries are competing with BSC for the opportunity to supply Fairless. A decision is expected by the end of June.

John Hunt sits in at a Transport House ritual

Angling after Williamsburg

LABOUR's erratic election campaign took a plunge into the theatre of the absurd at the ritual Transport House press conference in London yesterday.

Journalists had expected some heavyweight statement to be made on the Williamsburg summit, but Mr Michael Foot, the Labour leader, dismissed the affair in a few lines.

The star turn, however, was Mr Denis Howell, one of Labour's environment spokesmen who made his name a few years ago when a prolonged drought came to an end a few days after he was appointed Minister for Water Resources.

Now, the old rainmaker seemed more intent on winning working-class votes by promising that Labour would bring the final games of the World Cup back to Britain.

A suspicious German reporter wanted to know if this was a solemn and binding undertaking. Immediately, Mr Howell took refuge in a rather vague formula which seemed to involve grants to improve facilities for UK football clubs.

But it was the subject of angling which brought out his greatest histrionic talents with a question-and-answer dialogue which seemed worthy of Harold Pinter.

In its unpredictable fashion the Labour Party had planned a second press conference two hours later and reporters were told that Mr Dennis Healey, the deputy leader, would give his costing of the Tories programme.

When journalists reassembled, however, there had been yet another switch. After complaints about the triviality of questions and replies there had been a meeting of the campaign committee and the theme was now to be the Williamsburg summit.

A behind-the-scenes coup seemed to have taken place and Mr Healey was now playing David Steel to Mr Foot's Roy Jenkins. Footie had been removed to the left of the stage with Mr Healey firmly in the centre. The entire campaign committee trooped on.

Why was Labour prepared to help angling when it wanted to abolish fox hunting?

Mr Howell might have come clean and admitted that it was because of all the votes of the working-class and of those who line the banks of rivers and canals at the weekend. Instead, he replied that angling was not cruel, but was a recreational sport.

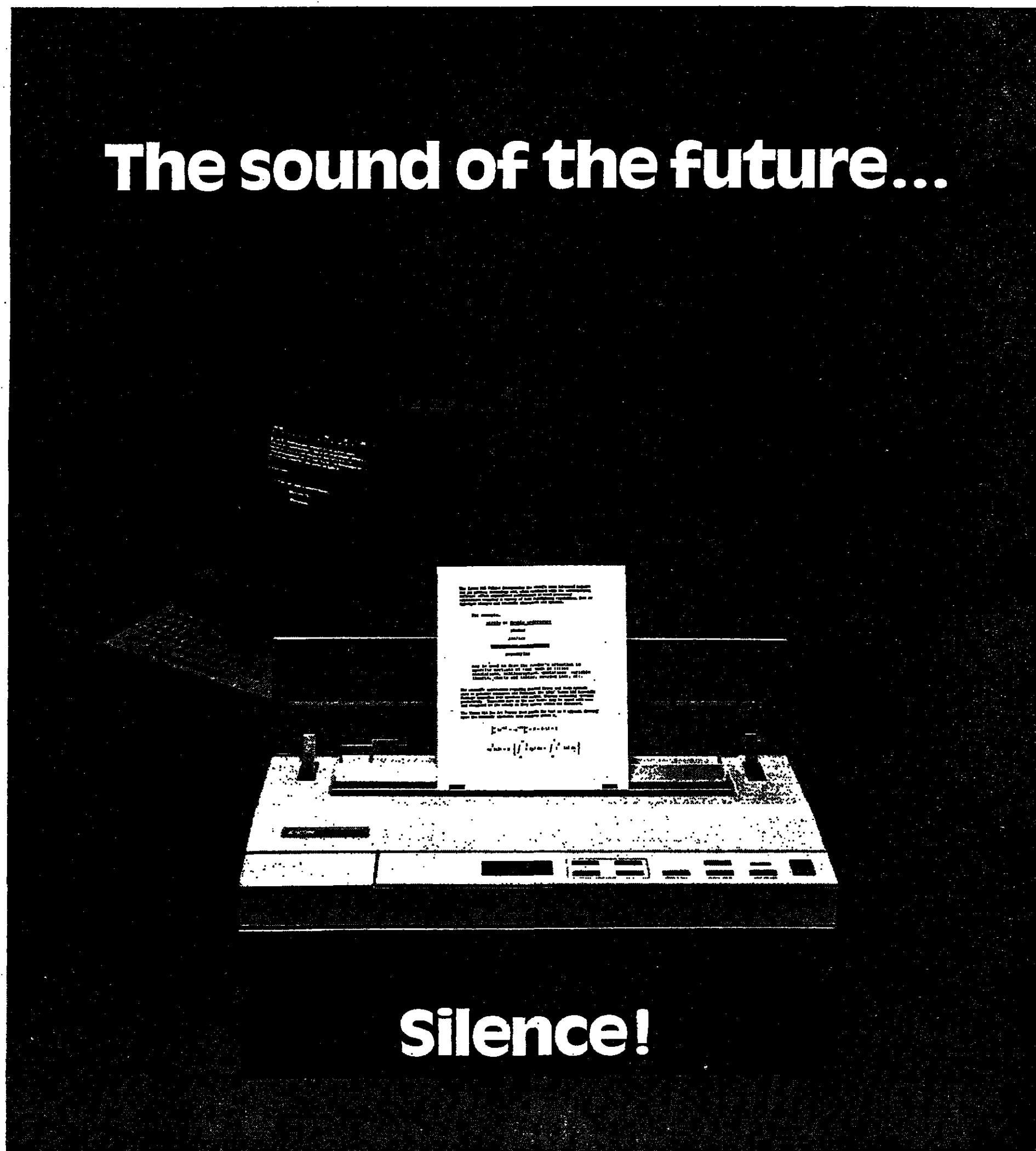
Was he suggesting that a hook was not painful to the mouth of the fish?

Perhaps he saw a distinction between fishing for pleasure and fishing for food? Reply: "I don't think so - at least, not for the fish."

Leaving these confusing scenes behind us reporters went over to watch a quieter performance under Mr Cecil Parkinson, party chairman, who was in control in the absence of Maggie.

Lined up were three ministers who have been tipped as future Chancellors - Mr Nigel Lawson, Energy Secretary, Mr Patrick Jenkin, Industry Secretary, and Mr Leon Brittan, Chief Secretary to the Treasury. Mention of the race for the top Treasury job brought coy smiles and oblique disclaimers.

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UK close to deals on spot market oil

THE British National Oil Corporation (BNOC) is understood to be close to concluding term-contracts for the bulk of the North Sea oil which for nearly four months it has been forced to dispose of on the spot market.

About 120,000 barrels a day, or nearly one-sixth of the oil which it markets after selling back participation crude to producers, has been involved in transactions resulting in undisclosed losses.

These losses have been reduced since the gap between official selling prices and spot market rates closed significantly last month after the Organisation of Petroleum Exporting Countries' pricing and production pact.

BNOC has been charged by the Government with making a pre-tax trade profit of £10m in 1983. That compares with one of £1.5m achieved in the last five months of 1982 after its former exploration and production interests were hived off to form the privatised company Britoil.

BNOC was forced to resort to the spot market on a substantial scale after Gulf Oil decided not to renew its contract for more than 100,000 b/d at the end of January.

Warning on drop in manufacturing

STANDARDS of living in the UK are threatened by a continuing decline in manufacturing industry, the London Chamber of Commerce and Industry warns today.

The chamber says in a paper examining the de-industrialisation process that improvements in the service sector are unlikely to make up the shortfall in employment or overseas earnings resulting from a decline in manufacturing.

It would appear, concludes the paper, that while the process of de-industrialisation may well slow down through the 1980s, "it will still have an adverse impact on standards of living in Britain which the operation of market forces is unlikely to correct."

Mail order threat

THE decision of the British Mail Order Corporation (BMO) to grant its own parcels from next year could lead to big losses in the Post Office, according to the Union of Communication Workers (UCW). The corporation is one of the Post Office's biggest parcels customers.

A statement that went before a private session of the UCW conference yesterday estimated that 600 jobs might be lost in sorting offices if the plan went ahead. BMO already pre-sorts some of its business and other mail order companies pre-sort all their business but the UCW claims that BMO's decision is likely to be followed by other companies and the total job loss might be as high as 1,500.

Pottery sector hit

A SURVEY by the Ceramic and Allied Trades Union at Stoke-on-Trent has revealed that shopfloor workers in the pottery industry have been othered in the past five years to 27,500.

Mr. A. H. Clowes, the union's leader, said: "It leaves us with an industry whose size is only 55 per cent of its position in 1975. All Western countries are battling against Far East imports in the ceramic field."

Thirst quenched

EUROPE's thirst for fruit juice is finally coming under control after consumption doubled to 3.4bn litres in the decade to 1982, it was suggested at a seminar organized by Canadian, the London business research organisation.

A survey of the European fruit juice market showed that although likely to grow considerably faster than most other soft-drink categories, sales of fruit juice were not expected to maintain the double-digit growth rates of the 1970s.

Property optimism

THE GLOOM in Britain's commercial property markets has been overdone, said one of the country's top investment managers. Mr. Peter Simon, investment director of the Legal and General Group, in a paper, "A perspective on property markets," said much of the gloom was based on superficial analysis and insufficient evidence.

Policy crisis

UK regional policy is in a state of crisis and only a wide restructuring of it will produce the sort of approach necessary for the regions to be regenerated over the next 10 to 15 years. This is the view of two Cambridge dons in two papers forming part of the current Regional Studies Association's review of regional policy.

New air link

A SCHEDULED airline service started yesterday, between Dublin and the East Midlands airport near Derby, operated by the Irish independent airline, Avian.

UK NEWS

Tough takeover bid battles

BY CHARLES BATCHELOR

THE multi-million pound takeover bids which have rocked the City of London in recent months have forced the companies involved to turn increasingly to the advertising agency and the professional lobbyist to back their traditional advisers — the merchant banks.

An executive with one of the City's financial press relations groups commented: "Takeovers are getting bigger and bigger. More and more money is being spent as it becomes ever more crucial to get every shareholder's vote. Companies are saying, 'We must advertise and to hell with the expense.' When the sums were smaller they were not prepared to do it."

The £200m bid from Trafalgar House for P & O is in its early stages but P & O's rejection of the offer as "desertion" suggests a long and bitter battle is ahead.

The £600m bid from industrial conglomerate EIR for fellow industrial holding group Thomas Tilling is now being fought out in the advertising columns of the national press as both sides attempt to woo the Tilling shareholders.

The successful £230m bid from Hanson Trust, another industrial conglomerate, for the UDS retailing group was also aided by the skills of

the professional advertising agency.

Advertising campaigns are nothing new but the close involvement of Saatchi and Saatchi in the Trafalgar House campaign for the hearts and minds of P&O's shareholders is an innovation. Saatchi is best known for its political and consumer-oriented advertising and has previously had little involvement in the financial field. This has traditionally been the preserve of specialised City-based public relations and advertising agencies.

Mr. Eric Parker, managing director of Trafalgar House, said: "Saatchi were working on the champagne glass campaign for our Cynard subsidiary, showing their ships at sea in a champagne glass. I suggested they might like to look at this acquisition. We wanted a document that was fairly easy to read."

Mr. John Spratt, deputy managing director of Saatchi, said: "Advertising in bid battles is a growing trend and we have found ourselves being asked to advise more often. Our ability is to take the main point of an argument and present it in a dramatic and appealing way. We advised Trafalgar House on the presentation of their press release and to some extent on the content. You have to choose what informa-

tion you present at a particular point in time.

"It is quite a challenge to use our skills in an area which has been ignored in the past."

Mr. Julian Wellesley, chairman of Charles Barker, an important advertising and public-relations agency specialising in financial accounts, doubted if this was a field for the consumer agency.

"This is a very specialised activity. Very few people have the understanding to give the service needed by companies in this position. Because the timescale of a takeover bid is so short, it is important to get out your message in a short space of time. The gun has to be loaded and fired at short notice."

Some companies are finding that political lobbying can help their case. Saatchi's called in the professional lobbying skills of G.P. Government Relations to devastating effect in its defence against the welcome attentions of two U.S. businessmen, Mr. Stephen Swid and Mr. Marshall Cogan. The Americans' offer was referred to the Monopolies and Mergers Commission by Lord Cockfield, Trade Secretary, against the advice of the Office of Fair Trading, after an intensive lobbying campaign of strategically placed MPs.

Irish may set up rival satellite

By Raymond Snoddy

THE BBC could be facing competition on satellite broadcasting from an unexpected quarter — across the Irish Sea.

Ireland, like the UK, was awarded in 1977 the right to run five satellite channels, and the Irish are now considering whether to go ahead with a direct broadcast satellite operation which would inevitably cover all the UK.

An inter-departmental committee set up under the Irish Ministry of Posts and Telegraphs is due to report in two months' time. The committee will come under pressure from Irish broadcasters to recommend that Ireland should push ahead with its own satellite operation.

If the Irish Government approves, Ireland could have one channel, or possibly two, in service by 1987-88. The BBC is due to begin satellite broadcasting in September 1986.

The Irish have the right to use a satellite in the same orbital position — 31 degrees west — as the Unisat satellite due to carry the two BBC channels. From this position Irish channels could be beamed all over the UK.

Mr. George Waters, director-general of Radio Telefís Eireann (RTE), the Irish broadcasting corporation, said he could not speculate on the outcome.

RTE had made it clear, however, that it wanted to run a satellite operation, and Mr. Waters said hardly a week passed without some offer of a joint venture coming from either the U.S. or Britain. Clearly, RTE would like to beam its programmes at the substantial Irish community in the UK.

Unlisted shares plea

BY CHARLES BATCHELOR

THE STOCK EXCHANGE Council has told stockbrokers that the shares of companies coming to the Unlisted Securities Market (USM) should be placed as widely as possible with the investing public and not kept "in-house" for their own members and employees.

The placing of new USM stocks should not be used to provide profits for stockbrokers. Their employees, families or organisations such as pension funds from which they would benefit, the council said in a letter to the senior partners of the

more than 200 stockbroking member firms.

There has been growing concern within the council that investors were not getting a fair share of the stocks of companies coming to the USM, which was formed two-and-a-half years ago.

The requirement that companies need place only 10 per cent of their shares on the USM compared with a minimum of 25 per cent on the Stock Exchange has meant that only a limited number of shares are available anyway.

A FINANCIAL TIMES SURVEY

GOLD

JUNE 23

The Financial Times is proposing to publish a Survey on Gold in its issue of 23rd June to coincide with the Financial Times World Gold Conference — "The Outlook for Gold and Silver: The provisional editorial synopsis is set out below."

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UK NEWS

Strike threat overhangs Ford efficiency talks

BY BRIAN GROOM, LABOUR STAFF

FORD and its unions are still searching for agreement on more than 20 per cent of the proposed efficiency measures that have provoked the threat of a new strike at the Halewood body plant, on Merseyside, according to union leaders.

These have been identified in three visits to the plant by a joint working party, and will be discussed tomorrow at a meeting in London of the full national negotiating committee for manual workers.

Both sides are keen to settle the dispute peacefully, but in the background lies a vote, taken three months ago by the 4,000 body plant workers, to strike if Ford imposes the disputed changes.

Ford is demanding more flexibility in an effort to close the productivity gap with Halewood's sister plant at Saarlouis, West Germany. The changes are part of a programme of 1,300 voluntary redundancies among the 9,700 Halewood body and assembly workers.

They include, for example, requiring the worker at the end of a body panel press line to move a pallet full of completed panels to one side and push an empty one into place, rather than summoning a material handler, which can delay production by up to 15 minutes.

Ford denies that the changes breach demarcations between skilled and semi-skilled workers and are paid for under existing efficiency agreements. But unions say some changes cut across the national job-evaluated wage structure. They want to negotiate a price for them.

Mr Ron Todd, the unions' chief negotiator, said: "If we failed to get agreement, and the company tried to impose these changes, then we would be back in the position where the Halewood lads said we would be. But hopefully we will be able to make our way through the problem."

The strike threat was made at a meeting attended by only 1,000 body plant workers while they were laid off during the month-long stoppage at the adjacent assembly plant, over the dismissal of Mr Paul Kelly, a production worker, for alleged vandalism.

Ford claims that last week's inquiry report into the Kelly affair disproved allegations by shop stewards that the dispute was engineered by the company to soften resistance to the impending efficiencies.

The inquiry said sacking was the wrong punishment for Mr Kelly, but implicitly backed the company's case that he had deliberately bent an 86p bracket on an Escort car.

● The high-performance XR4i version of Ford's Sierra is to go on sale in the UK on June 1, John Griffiths writes.

It will cost £9,170, including all taxes.

Banking faces '10% jobs cut by 1990'

By Our Labour Staff

UNION FEARS that new technology will reduce employment in banking have been fuelled by a study which says that up to 10 per cent of existing bank jobs in Europe may be lost by 1990.

An interim report submitted to the European Commission by Professor Emile Kirchner, of Essex University, concludes that 1982 was probably the year of peak employment. His findings are reported in the latest edition of Retail Banker International.

Prof Kirchner interviewed executives from more than 100 banks, as well as trade unionists. He believes secretarial and clerical jobs will be most affected by new technology, though all will be affected to some extent.

However, the report says that electronic payment at supermarket checkouts and home banking are unlikely to have much impact before the 1990s.

Fiet, the Geneva-based private-sector white-collar unions' international body has already said that up to 250,000 European bank jobs - 10 per cent of the total - could be lost over the next decade because of new technology.

● A leading international trade union leader has said that workers have no reason for viewing robots as their enemies.

Mr Herman Rebban, general secretary of the International Metalworkers Federation (IMF) - with 185 affiliates totalling 14m members - has said: "In many cases robots take over work that is physically dangerous or boring. Struggling with the fumes and fire of a welding torch in a confined space is more punishment than pleasure, and if a robot can take over such a task we should not complain."

Mr Rebban's views, published in a special publication, "Decade of Robotics", are important because of the influence they will have on the IMF's affiliates, and because he expresses a view common among many leading trade unionists - though rarely publicly expressed.

He is careful, however, to stress the desire by the metalworking unions for joint consultation and, where possible, joint control over the introduction of robots in plants.

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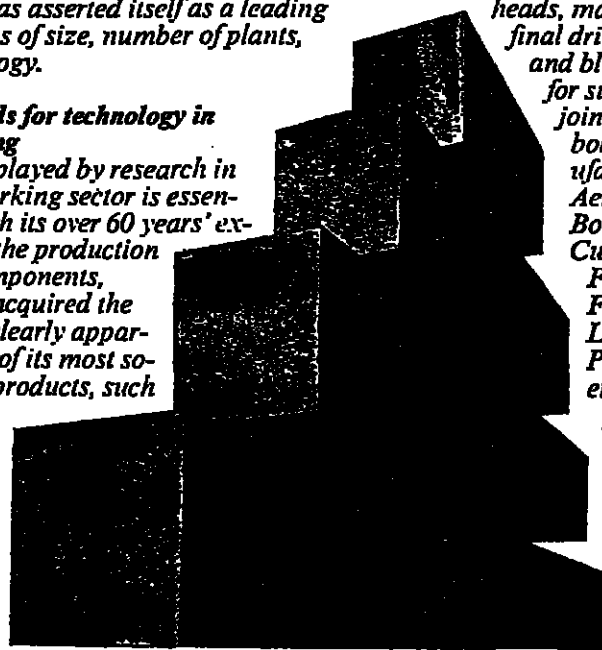
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Teksid

Teksid: the Fiat Group's metalworking operation

FT Grocery Price Index up in May

By Our Consumer Affairs Correspondent

A RISE in the price of fresh produce caused by the wet weather during the past month led to a significant increase in the Financial Times Grocery Price Index for May.

The index for May stood at 151.57, compared with 150.25 in April.

The fresh fruit and vegetable section of the shopping basket rose in cost from £30.35 in April to £34.42 in May. This clearly reflects the problems caused by the continued rainfall in recent weeks.

Apart from the rise in the fresh produce sector of the basket, other sectors showed little change from last month's prices.

The index is meant only as a guide to trends in food prices and should not be taken as an absolute indicator of price levels.

The grocery price index is compiled from data supplied by 25 shoppers who monitor the same 100 grocery items every month in a range of stores. These range from large superstores down to small village grocers throughout the UK.

'Vigorous' economic recovery forecast

BY JEREMY STONE

THE UK economic recovery is described by Professor Patrick Minford as "vigorous and rumbustious" in today's issue of the Liverpool University economic bulletin. The Liverpool forecast is for a 3 per cent growth in output this year, rising to nearly 5 per cent in 1984, while inflation - under a new Conservative administration - would average less than 2 per cent in 1984.

Professor Minford warns that there will need to be firm evidence of a restraining monetary and fiscal framework to stop inflation from reviving. He writes that the Conservatives' overriding objective of reducing inflation to zero implies that money supply growth should come down to between 2 and 5 per cent while public borrowing falls to less than 1 per cent of gross domestic product (GDP).

Under the Conservative case assumptions GDP should grow about 3.5 per cent a year until 1986, while unemployment falls to 2.2m and inflation declines to 0.9 per cent in the last year of the forecast. The exchange rate steadily appreciates, reaching 95 per cent of its 1975 value by 1986.

Under a Labour government, the forecast predicts that inflation peaks at 17 per cent in 1984, while sterling is rapidly devalued, reaching 55 per cent of its 1975 value by 1986. Because of this devaluation, unemployment falls slightly more than in the Conservative case, to 1.9m.

The Liverpool forecast, remarkably, does not even predict that Labour's reflation would produce faster growth in its earlier years. Indeed, financial crises are considered likely to drive interest rates so high by 1984 that real growth is choked back to only two-thirds of the rate projected under Mrs Thatcher.

The forecast also examines the possible effect of a centrist coalition, linking the Liberal-Social Democrat Alliance with the Conservatives. Under this outlook recovery continues at much the same pace as under the Conservatives, but with average inflation over the next four years up from 2.3 to 5.6.

Quarterly Economic Bulletin, Liverpool Research Group in Macroeconomics, University of Liverpool, (051) 709 6022.

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UK NEWS

COMMERCIAL LAW REPORTS

Evidence must justify Mareva variation

A v B-X INTERVENING
Queen's Bench Division (Commercial Court); Mr Justice Parker: May 19, 1983.

AN INTERVENOR who seeks to vary a Mareva injunction so that a debt of honour owed to him by the defendant can be paid out of frozen assets must satisfy the court that there is no intention to defeat the underlying purpose of the injunction; and variation will be refused if he cannot show that the debt specifically relates to the frozen assets and that at the date of the injunction he had an existing right to be paid from that source.

Mr Justice Parker so held when dismissing a chambers application by "X Ltd" as intervenor, for variation of a Mareva injunction by which assets of the defendant to an action to which X was not a party were frozen to prevent their dissipation before trial. The parties were not named.

HIS LORDSHIP said that on September 24 1982 the plaintiff obtained a Mareva injunction against the defendant freezing all his assets within the jurisdiction up to \$13.2m. The plaintiff's claim in respect of which the injunction was granted for moneys due on closure of a commodity account.

The plaintiff also obtained an order for an affidavit disclosing the defendant's assets of certain descriptions within the jurisdiction, including bank accounts. On October 19 the defendant swore an affidavit disclosing four bank accounts with credits totalling about £8,000.

At the date of the injunction the defendant owed the intervenor, "X", £400,000, on cheques drawn on August 19 and dishonoured on September 13.

X now applied to the court for variation of the injunction to permit the defendant to pay £400,000 from his assets within the jurisdiction.

The evidence was that the debt had never been disputed and the defendant had given temporary cash flow problems as his explanation for dishonour. It was said that on several occasions the defendant had expressed himself willing and able to discharge his debt to X.

There was no evidence to show from what source the defendant wished to pay the £400,000. He had made no application himself. Nor had he come forward to support X's application.

In correspondence leading up to the application the plaintiffs had contended that the debt was unenforceable and that it was not incurred in the ordinary course of business.

It would not matter if the debt were unenforceable, for a Mareva injunction was not to be used to prevent a person meeting debts of honour (which this clearly was), so long as the court was satisfied that his desire to use frozen assets was not merely to evade the underlying purpose of the injunction.

The fact that the debt was not an ordinary business debt was equally of no importance. If a man had purchased for his own pleasure a valuable picture or piece of furniture, the injunction was not to be used to prevent him from paying the purchase price - subject to the qualification that the court was satisfied that in doing so he was not evading its underlying purpose.

The plaintiff's main objection to the variation was that the court had no material on which it could be satisfied that the payment, if made, would not evade or defeat the underlying purpose of the injunction.

X, on the other hand, contended that whereas a defendant would have to satisfy the court on that matter if making the application himself (see: *A v C (No 2)* [1981] 1 B 956), an intervenor was in a bet-

ter position and had merely to show that the debt was incurred prior to the injunction.

That submission was correct when the intervenor was a bank seeking to exercise pre-existing rights of set-off in respect of assets caught by the injunction in its own hands (see: *Oceania Castelana* (1983) 2 All ER 65).

It would also be correct in some circumstances, where the intervenor was claiming under an agreement specifically relating to frozen assets which were not in his own hands.

In the present case, however, the position was different. X was claiming a simple debt which did not specifically relate to the assets caught by the Mareva, save in one possible respect, namely that the dishonoured cheques were all drawn on an account which, at the date of the defendant's affidavit, was in credit to the extent of £3,700.

The court must carefully guard the rights of third parties, but it could not dispense with the need to be satisfied as to the justification for a variation when a defendant told a third party he was willing to pay and left it to him to apply.

The purpose of the injunction would not be defeated if the £400,000 were to be paid either out of assets within the jurisdiction which exceeded \$13.2m, or out of assets outside the jurisdiction; but in neither of those cases would a variation be required.

Nor would it be defeated if the £400,000 were to be paid out of assets within the jurisdiction not exceeding \$13.2m, and there was no other source from which the money could come.

Whether the application was made by the defendant or by his creditor, the court should be satisfied by evidence that, in allowing the payment to be made out of frozen

assets, it was sanctioning no more than a payment which would normally have been made out of such assets had there been no injunction.

In the present case there was no evidence on which the court could be so satisfied. If the defendant wanted to make the payment he could make an application himself or possibly provide X with the necessary evidence.

Alternatively, X could proceed to judgment, in which case it would have no difficulty in executing upon any assets it might find within the jurisdiction.

At the date of the defendant's affidavit moneys were standing to the credit of the bank account on which the cheques in favour of X were drawn.

If cheques were drawn on an account which was in credit at the date of the injunction and the defendant desired that they should be met to the extent that the credit allowed, there was no reason why an injunction should not, in most cases, be varied to allow the payment to be made from that account.

If the cheques were drawn before action and injunction, there was no question of defaulting the purpose of the injunction. At the time it was granted the creditor had an existing right to be paid from that particular source.

In the present case, however, there was no evidence of the state of the account as at the date of the injunction. All that was known was that the cheques were returned by the bank on September 15 marked "refer to drawer", and that on October 19 the credit balance was £3,700.

For the plaintiff: Christopher Clarke (Linklaters & Paines)
For the intervenor: Charles Gibson (Kingsley Napley & Co)
By Rachel Davies
Barrister

Admiralty Court chart ruling revoked

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

SHIPOWNERS are responsible for ensuring that their vessels are supplied with up-to-date and accurate charts, the Court of Appeal has ruled.

It is not sufficient to leave the matter to the ship's Master. There must be a management-instituted system for chart correction, and spot checks by management representatives, the court said.

It allowed an appeal against an Admiralty Court decision that the owner of a Liberian tanker, whose anchor damaged a North Sea oil

pipeline, could limit his financial liability for the damage under the Merchant Shipping Acts.

The Acts provide for such a limitation if the owner can demonstrate that the damage was not caused as a result of the way he manages his business.

The Admiralty Court's ruling had been challenged by oil companies using the pipeline from the Ekofisk field to Teesside, which was severely damaged by the tanker Marion's anchor.

The vessel's owner, Grand Cham-

pion Tankers, admitted that the damage had been caused by the negligence of the Master, who had been using uncorrected charts on which the pipeline was not shown.

But, the company argued, that was not something that stemmed from the way its business was run.

Lord Justice Dunn said that the Marion was managed by the London-based Fairfield Maxwell Services, and the question was whether they and, through them, Grand Champion Tankers were at fault. They argued that they fulfilled

their duty by promptly supplying the Marion's Master with the charts he asked for, and with published alterations and corrections.

Lord Justice Dunn said that if, as had been asserted, that was a common practice with chart correction being left to a ship's Master it was fraught with danger.

"If, as here, the Master is grossly negligent, and effectively operates no system for the correction of charts, that will not come to light unless and until there is a casualty," he said.

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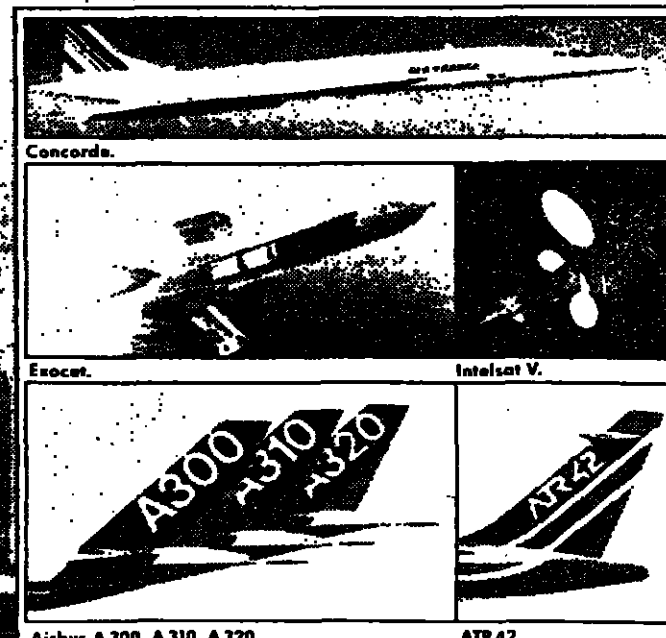
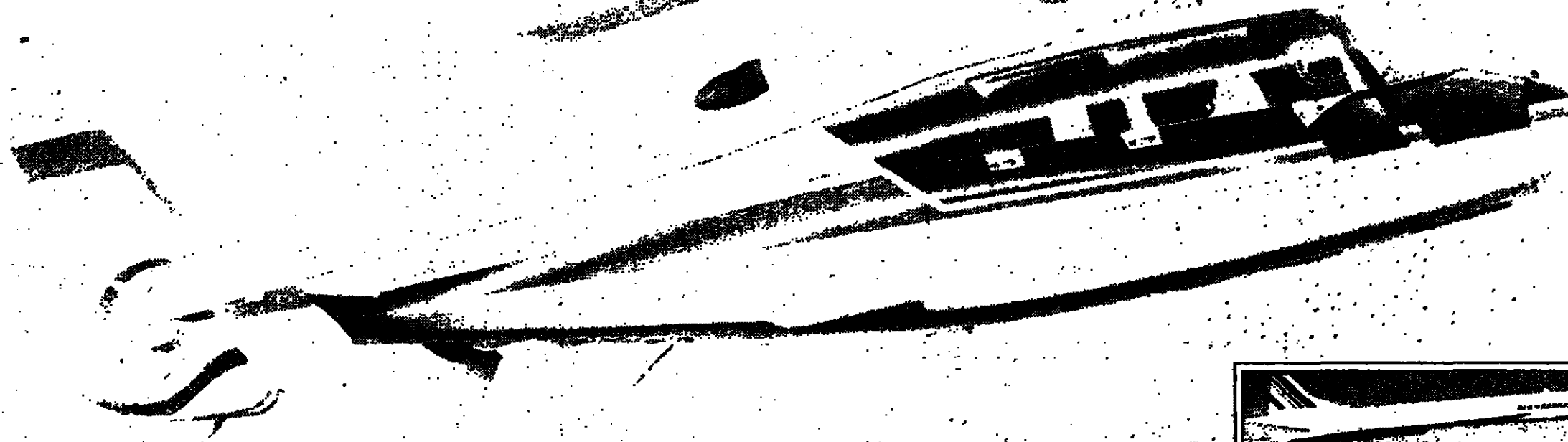
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BUILDING AND CIVIL ENGINEERING

BMP in repair grant campaign

A MAJOR campaign is being mounted by the National Council of Building Material Producers (BMP), the National Federation of Roofing Contractors (NFRC) and other members of the building industry to put pressure on the Government to make the 90 per cent repair grant permanent.

The present scheme expires next March, and although 90 per cent grants are thought to be making a major contribution to the renovation of UK housing stock, the BMP believes that uncertainty among manufacturers and contractors is having an adverse effect on investment, training and recruitment.

It says that a co-ordinated approach is needed to make a substantial impact on the 4.5m houses believed to be in need of repairs costing over £2,500 each.

Mr Charles Williams, of the BMP, forecasts that the figure of 98,718 grants made in the UK in the last quarter of 1982 will increase significantly during the year and produce an annual rate of approximately 100,000 by the end of the year producing work worth over £200m.

The industry seeks a significant improvement in the

administration and supervision of repair grants by local authorities. The Government is being urged to put pressure on local authorities to make repair grants more readily available. Local authorities are presently allowed a considerable degree of discretion in their allocation of funds for housing investment.

As a means of avoiding large increases in Town Hall staff, it is suggested that supervision may be carried out either by a superficial inspection of the jobs done (backed up by a thorough survey of a random sample) or the use of private surveyors and architects, whose fees could be met from grant funds.

A register of approved contractors is seen as another way whereby supervision of the grants could be made easier for local authorities.

In processing grant applications, the BMP suggests that a simple "model" procedure issued by the Department of the Environment might prove a useful aid.

It adds that making grants payable against invoices and not estimates would help prevent abuses of the system.

JONATHAN COKE-SMITH

PRIVATE SHELTERED ACCOMMODATION

McCarthy satisfies a need

SHELTERED ACCOMMODATION for the elderly—that is, groups of homes for old people with a resident warden to provide assistance and supervision—is in the main only available from local authorities and housing associations, usually on a full rental basis.

This is not always a satisfactory solution, particularly for the elderly owner-occupier looking for local authority accommodation, as they find it difficult to qualify for a home under the points scheme.

There are about 6m owner-occupiers aged 60 in the UK. If it is assumed that a quarter of them are looking for sheltered accommodation, but cannot qualify for the usual local authority homes, this provides a substantial 1.5m unsatisfied market.

The possibilities offered by these potential customers occurred to a firm of local builders, McCarthy & Stone, of New Milton, Hampshire, at about the same time that they were faced with a difficult development site. Planning permission had been refused for the density of housing of office building which was necessary to provide a reasonable return, but what about private sheltered accommodation for the elderly?

This turned out to be a good idea. High density of individual homes could be achieved because the scheme, usually need only one bedroom,

and probably do not have a car so only limited garage or parking space was required. The local authority approved because the scheme reduced pressure on its sheltered homes housing list, and provided a satisfactory planning solution for a difficult town centre site.

The concept has proved a winner for McCarthy & Stone. The first scheme was completed in 1976. Since then 10 sites have been completed in the south coast area, 17 more are at the selling stage, and work is in progress at another 20.

The company was launched on the unlisted securities market in June last year, and

the end of 1984.

Commenting on this move Mr John McCarthy, the company's chairman and managing director, said: "Having identified a major market, we are responding to the considerable demand for our sheltered homes. We know from our research that they meet a growing social need, and our national building programme is in response to the avalanche of inquiries we have received from people throughout the UK."

Mr McCarthy says that finance for the development programme will be provided through the company's own cash flow and "agreed facilities."

Capital purchases in plant and equipment will account for over £750,000 to provide an initial establishment for the regions, he added.

McCarthy and Stone's developments generally range between 40 and 60 flat units, normally with one bedroom, and designed for one or two people. Each flat, costing from

about £19,000 in the West Country to £37,000 in Surrey, is self-contained including a lounge-dining room, kitchen, bathroom and bedroom, and is electrically centrally heated. Communal facilities include guest bedrooms with ensuite showers, laundry room and residents' lounge; and, of course, there is a resident warden.

The units are linked to the wardens office and flat with an emergency intercom alarm system that can be operated from all the main rooms in each flat, including the bathroom.

Mr McCarthy emphasised that particular attention is paid to the selection of sites, which are preferably level short walk to main shops and other local amenities.

This often means that they are sites which may prove difficult to develop in any other way which would provide a satisfactory commercial return.

Last year's profits for the company were £2.15m. According to Mr McCarthy this will be reinvested in the company, as will the profits at the end of this year, expected to be £3m. Predictions for next year double this figure.

The company holds no land bank, and when a site has been purchased building work generally starts within three months.

Now that the company is beginning to establish a reputa-

tion in this market, both local authorities and housing associations, which previously were sceptical, are wishing to take part in the scheme, and some have even offered sites, says Mr McCarthy.

Residents, who must be over 60 (purchasers can be any age), pay a £6/7 a week management charge to cover the cost of the warden, insurance, maintenance heating and lighting, and rates



Mr John McCarthy, chairman of McCarthy & Stone

rates on the communal areas. The company says that the total weekly outgoings on each flat, sold on a 99-year lease, is about £17.

TONY FRANCE

Report attacks attitude to imports challenge

IMPORTS are proving a challenge for a number of British building material producers and, in some cases, management has taken an over-confident attitude to the domestic market, says a recent report.

Technically, and often managerially, the leading British building materials companies have enjoyed overwhelming dominance in the domestic market, says the May Building Bulletin from London stock-brokers Savory Milin, particularly in bulk materials where transport and handling costs are significant.

"Now, however, the old order is being challenged as foreign producers faced with depressed demand in already mature markets struggle to find new outlets for short-term surplus capacity, and opportunities for long term potential growth," say the brokers.

The view that British management is over-confident has been voiced by many in the builders'

merchant and do-it-yourself businesses they say, adding that this may help explain the success of the importers in some fields in recent years.

With quality and certainty of supply as major considerations, say Savory Milin, most of us seem happy to play it safe, and continue to use British cement. They note, however, that these users will still benefit from imports since British producers have been forced to forgo price rises in order to maintain a competitive position.

In plasterboard, they believe the import threat to be "essentially marginal." But in glass, they say that import penetration is more significant than for most building materials and that American and Japanese invaders will not lightly surrender the markets which they have made in the UK and other markets.

WILLIAM COCHRANE

Kier wins £11m Papua New Guinea tunnelling work

KIER INTERNATIONAL, part of the French Kier Group has been awarded the contract for the design and construction of four tunnels worth about £11m on the Ok Tedi Project in Papua New Guinea.

This 18-month contract for Ok Tedi Mining forms part of stage one of the overall development for the mining and production of gold in the province. These tunnels, totalling 2.81 kilometres in length, will be driven through variable geological formations using a Roadheader excavator mounted inside a tunnel shield.

The fourth tunnel, 1.1 kilometres long, passes through hard rock and will be excavated by conventional drill and blast methods. Financing has been arranged by Lloyd's Bank International through a project line

of credit with the guarantee of ECGD.

HOLLAND DREDGING COMPANY (UK), Farnham, in joint venture with BALFOUR BEATTY CONSTRUCTION, Edinburgh, has won a £3.2m contract from Vickers Shipbuilding and Engineering at Barrow-in-Furness. This calls for about one million cubic metres of all material, which will be pumped into Devonshire Dock. There will be drainage repairs, grouting dock walls and structural works at the entrance and in the graving dock. A cutter suction dredger will remove sand and gravel fill from Roscoe's Sands, some 3 kms south of Barrow. The materials will be transferred along a 650 mm diameter pipeline via two boosted stations.

Among contracts recently awarded by the Property Services Agency are: a £3.5m contract awarded to Peter Biese for the re-engineering of an underground bunker at RAF Ash in Kent; a £2.5m contract awarded to Amey Roadstone for five aircraft shelters and a taxiway at RAF Upper Heyford, Bicester; a £3m contract awarded to Shepherd Construction for the erection of Crown and County Courts at St Aldates, Oxford; and finally a £1m contract for Wimpey Construction to repair and renovate married quarters at Wantage, Oxfordshire.

ALLEN-FOX CONSTRUCTION, Wigan, has been awarded the new distribution depot, Inham, contract for OWS drinks group, value £617,490 and the Phase II civil works contract at the Hand-

forth depot, Wilmshurst for CWS group, value £145,515. Work has started on design and build contracts comprising the Post Office new sorting office, Preston, for National Carriers, value £508,200; the warehouse extension for James Hirstead, Whitefield, value £260,296 and the new warehouse and offices for Barker Welding Supplies, Bolton, value £194,000.

ALMSHOUSES built in 1852 as an "Asylum for Worthing Aged and Decayed Freemen" at Freemasons Road Croydon, are being converted into modern self-contained flats and maisonettes for the elderly under a £760,000 refurbishment and new-build contract awarded to MANSELL by the London Borough of Croydon for completion in January 1984.

ROBERT MARRIOTT, Rushden, currently engaged on phase 1A of the new complex for the British Standards Institution at Linford Wood, Milton Keynes, has started work on phase 1B. The development comprises offices and further buildings including a print works at a total value of £2.3m.

BALFOUR BEATTY CONSTRUCTION has been appointed managing contractors by London and Metropolitan Estates for refurbishment of an existing eight-storey bank and offices on the corner of Gracechurch Street and Fenchurch Street. The new occupants will be the French bank, Societe Generale. Extensions will create more office accommodation, together with some 4,500 square metres of refurbishment is worth over £3m.

Gallagher land deal

IN ONE of the largest residential land transactions in the West Midlands in recent years, Gallagher Estates and Gallagher Developments have paid £3m for 81 acres at Monkspath, Solihull.

The land was purchased by Gallagher from Francis Parker and building work on the first phase of the housing development has already begun.

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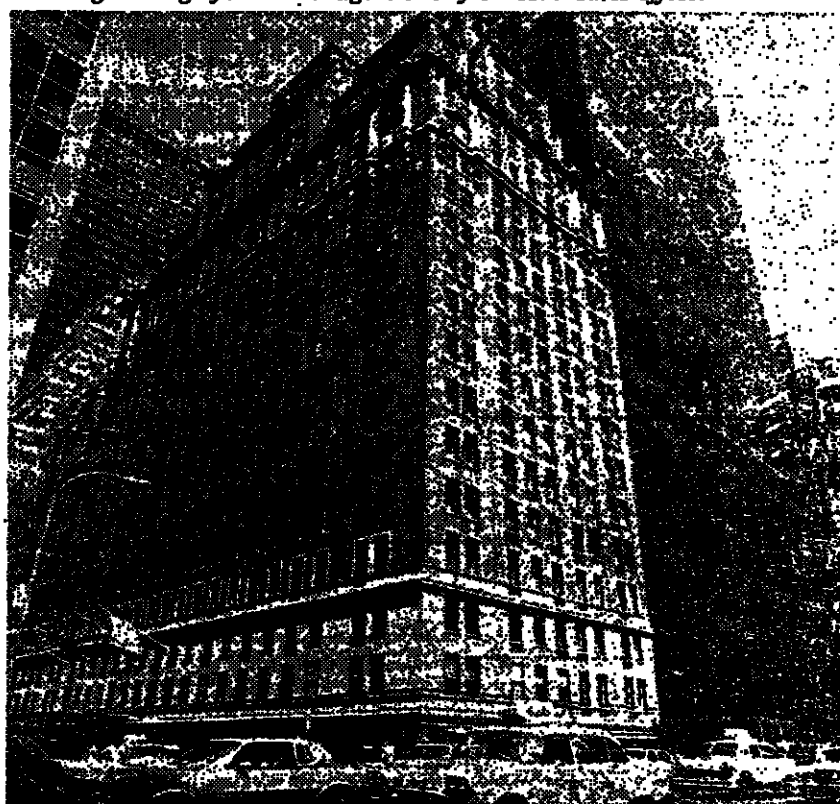
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THE MANAGEMENT PAGE : Small Business



Gerald Denford, managing director (centre), with his daughter, Nicola, the business systems manager, and son, Andrew, the technical director.

Back from the brink

FEW UK machine tool companies could say these days that their works director has been so occupied ensuring that orders are met that he has allowed his once eight-handicap golf game to disintegrate over the past year into a caricature of its former self.

That is what has happened to Brian Kellert of Denford Machine Tools, a company which has increased its workforce by almost a third in the past 18 months, operated a seven-day week for part of this year and is on course to double last year's turnover.

Nestling in the hilly town of Brighouse in the once great West Yorkshire machine tool belt, Denford manufactures equipment primarily used in training and retraining mechanics.

It has been subjected to many of the same trading traumas which have killed off large parts of Britain's machine tool industry. Set up in the 1950s, the company reached a peak in 1976 with 130 employees and a turnover of £1.5m. Three years later it saw overall losses and a drop of 80 per cent in machine sales, partly as a result of a national cash squeeze on training. By 1981, its workforce had tumbled to 65.

Gerald Denford, the company's managing director, who took over the reins from its founder—his father, Horace—dates the start of the revitalisation

Computer control saved Denford Machine Tools from going under. Nick Garnett reports.

tion of Denford very precisely to June 1979. In that month, two men visited the company and changed its direction. One was Dennis Gill, group training officer for the industry-backed Humberstone Training Association, who was looking for equipment to purchase. The other was Cedric Fletcher, an official at the British Embassy in Helsinki who was starting up his own machine tool sales company. Both wanted to know why Denford was not converting its training machines to computer numerical control (CNC) in step with the trend sweeping through production machinery.

Within a month, Denford had taken the carcass of its standard variable speed lathe and fitted the electric motor drives which were a necessary preparation for CNC.

It then approached GSM, Syntel, a local electronics control manufacturer in Huddersfield. Though GSM had never made a CNC control unit before it said it could do it and would fund a large part of its development with the hope of getting orders from Denford. GSM was provided with the

specification of the lathe and the kind of work Denford wanted for the unit. By March the following year, GSM had designed and manufactured a CNC micro processor with built-in training aid programme for trainee lathe operators. This became the Micro Master system which was put on sale in the summer of 1980. Denford claims this was the first CNC training lathe produced in the UK and probably in the world.

GSM says that it then became clear that something smaller was required by the market. Further development led to the Micromaster being replaced by the more compact ORAC for which GSM had also done the CNC control unit. The bulk of GSM's output now goes to the Brighouse company.

Gerald Denford says of the changes: "If we had not converted to CNC, we would be closed down by now." He now argues that running in parallel with advances in production engineering equipment is the way forward for the training machinery industry. "Some machines built in the last eight years are now dinosaurs in a graveyard." He is very cautious, however, at what he says is a continuing failure of some production engineering company managements to recognise the benefits of CNC.

Denford secured a £1.1m order in January for 63 machines from the Mexican

Education Ministry. It now exports to Finland and Norway, and estimates that the turnover of £1.6m in the year to March 1983 will jump to £2.2m this year. Its workforce has recently been raised to 90 and the company has £2m worth of orders on its books.

In the past year, companies like Rolls-Royce, GEC Turbines, Westland Helicopters and British Aerospace have been either placing orders with or receiving equipment from Denford.

The company still manufactures conventional machinery—largely for schools and technical colleges—from a £400 double-edged grinding machine to a £2,500 variable speed lathe. But 90 per cent of its output is now based on CNC training machines and ancillary equipment, from the basic bench training lathe at £4,350 up to an Easturn lathe with CAD/CAM system, tool-path graphic display and printer and plotter for £25,000.

This equipment—which some of Denford's competitors say is strong on theoretical teaching and is directed to polytechnics, government re-training centres and colleges of further education, as well as engineering industry board centres. A third of Denford's machinery goes to the in-house training areas of big manufacturing companies but only 5 per cent of output is used in actual manufacturing processes.

Denford has a new range of equipment emerging for 1984 and is well aware that it has to maintain technical progress while keeping an eye over its shoulder.

There are a number of companies in or moving into CNC training equipment. Some have machine niches geared to more basic training. The biggest in the overall field is probably the Austrian company, Maier, with its Emco 5 bench training lathe. Others include the Yorkshire company, T. S. Harrison, with its M250 CNC lathe and the Australian company, Hercus.

Boxford, which was recently the subject of a management buy-out after the failure of the Brooke tool group of which it was a part, has a CNC training lathe on the stocks.

If Gerald Denford needed a reminder of how companies need to keep their ears to the floor, it landed on his desk at the end of last month. Correspondence with the Japanese machine tool company, Mecanix, elicited by accident the information that Mecanix was preparing to manufacture a CNC training lathe. "This is one crowd I'm watching," says Denford.

A substitute for imports

A SMALL family controlled steel pressing business in the Midlands has a special reason to be proud of taking on—and beating—foreign competition in its market place.

For the company, whose name must for the moment remain anonymous, is this week tooling up to meet a £40,000 order which is the direct result of last year's "Can You Make It?" Exhibition organised by the Confederation of British Industry, the London Enterprise Agency (LEA) and the Institute of Purchasing and Supply.

The customer in question, Dumfries-based Uniroyal, which, among other things, manufactures industrial footwear, is one of 50 or so large companies which last year put on a display at the exhibition of imported manufactured components and assemblies which they said would buy in Britain if the terms were right.

"We had been looking around for an alternative supplier for a vital component for our safety Wellington boot," explains Uniroyal buyer Ian Swan. "There didn't seem to be anything suitable on the market, but when we attended the exhibition we got 16 enquiries from interested parties. We finally whittled them down to this one in the Midlands."

Uniroyal says it has to be cautious about revealing further details because of possible retaliation from its previous supplier. Significantly, though, the new component will be slightly dearer than the one it is replacing. "The quality is the same but the difference is that we will receive materials which have already been treated," says Swan.

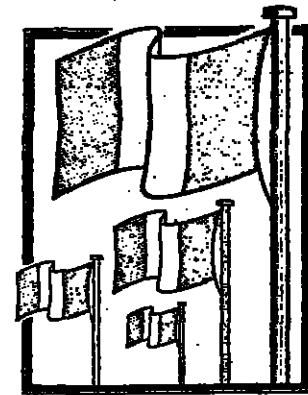
This Midlands success story comes at a time when invitations have just gone out from Sir Campbell Fraser, CBI president, to 250 companies, businessmen and chief executives urging them to take part in a second show to be held in London from September 26 to 28.

Products displayed at the first exhibition were worth an estimated £100m in potential new business. Nearly 3,500 visitors, mostly small businesses, turned up for the event and their 22,000 inquiries resulted in 2,000 firm bids to supply products to a value of £26m a year.

Tim Dickson

A virtue of necessity

James Buxton reports on Italian small business in the second of a five-part series on major countries



WHILE NORTHERN European governments sometimes seem to be stimulating small businesses in the hope of creating a completely new motor of economic growth, the Italian small- and medium-sized business sector is already one of the important and dynamic parts of the country's economy. Although it enjoys some government assistance, what it most wants is a continuation of the policy of benign neglect that allowed it to become what it is.

Whereas small industrial businesses in other European countries have often been set up as a reaction to the stultifying unviability of large concerns, in many parts of Italy industrialisation started with small businesses—for much of Italy has only industrialised in the past 20 or 30 years. The growth of small businesses in Italy did, however, receive a big boost in the early 1970s when large Italian companies were lumbered with new labour legislation and social security charges which obliged many of them to decentralise and divide themselves and their operations into smaller units.

The latest business census, taken in autumn 1981, illustrates the trend. It showed for example that the number of employees in manufacturing had grown by 45 per cent to 180,000 since 1971, but that the number of their employees had grown by only 25 per cent—the average number of employees in light manufacturing and textiles dropped marginally to 6.7 per firm.

The figures showed that only 8 per cent of engineering companies employed 20 or more people—and that 82 per cent had nine or less. On the basis of these and other figures Italy appears to be the European country of small business par excellence.

Even in more technologically advanced fields such as machine tools, production is often divided among a set of complementary small units rather than concentrated in one big one.

For example, Benetton, the major Italian jeans, knitwear and casual clothes maker, directly employs about 1,600 people but it gives work to an additional 10,000, all over northern Italy, who manufacture at home or in small workshops to the designs and standards set by the bigger company.

The vast majority of the Italian shoe industry, which produces more than 400m pairs

organisation, but must meet all the other costly conditions of employing labour. But a family unit, whether running a restaurant or a shoe workshop, can consider its members self-employed and is not obliged to pay pension and social security contributions.

People who work for more than one person self-employed contractors tend to escape the net of regulations. While the authorities are gradually tightening up on the collection of VAT, the sheer complexity and the informality of the small business sector, leaving aside the extremely difficult, leaving aside the strongly ingrained Italian habit of tax avoidance and secretiveness.

It is hardly surprising that the "submerged" or black economy in Italy is reckoned to make up at least a quarter of gross domestic product.

At both the small-to-medium sized business level and the more lowly artisan level there are associations to assist and lobby for their members and specialised banks which offer state-subsidised loans for genuine investment. The more enterprising local authorities have set up investment companies of their own to assist the growth of new companies and help those which get into trouble.

How is this elaborate rabbit warren-like structure faring in recession? Generalisations are difficult, but the recession had affected Italy less badly than it had other countries, mainly because of government reluctance to retreat.

Several industrial sectors and local production centres have barely been affected, while the flexibility and capacity to raise production of the submerged economy has enabled, for example, the shoemakers to fight off Third World competition.

What does the future hold? Many small companies in Italy exhibit a dangerous tendency to the undercapitalisation which is the bane of industry all over the country, and technical innovation is difficult though demonstrably not impossible in such a diffuse structure.

It may be significant that the only Italian company to remain dominant in the technically advanced skiboos industry (Nordica) has been run as a fairly large business almost from the start, while its more homespun rivals have declined.

On the other hand, the continued success of the shoe industry suggests that small industry in Italy has a considerable future, even in technologically unadvanced fields.

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TECHNOLOGY

NEW ELECTRONIC TOOL FOR GENETIC ENGINEERS

Cells shocked and fused

BY DAVID FISHLOCK, SCIENCE EDITOR

ON A TV monitor in a laboratory near Geneva I watched living cells being steered into contact and fused, making entirely new life entities of two, three or more cells. Unseen forces were guiding the cells and forcing the fusions with an efficiency unknown in the haphazard cell-fusion practices normal in laboratories today.

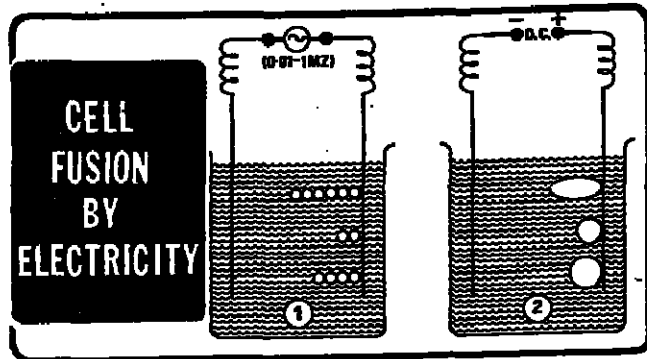
The technique was invented in the West German national laboratory at Jülich and first disclosed in 1980. Battelle Geneva Research Centres obtained rights to the technique and has spent two years studying it.

Their conclusion is that the technique can be engineered into an instrument that takes out most of the skill and replaces it with precisely determined physical conditions for achieving any kind of cell fusion.

A lot of people are interested, but not many are equipped to do the scale-up, claims Dr Peter Bromberg, a British "genetic engineer" who joined Battelle from Geneva University a year ago. He believes that in the next year Battelle will have advanced the science of cell-to-cell fusion to a point where it can confidently undertake a partnership with an industrial company to design a novel automated laboratory tool. This means knowing the precise electrical conditions needed to fuse a wide range of cells efficiently, simply by setting the knobs.

Cell-to-cell fusion by electric fields is one of a dozen biotechnology research proposals in a portfolio issued this month by Battelle Geneva Research Centres. The portfolio is designed to whet the appetite of potential commercial sponsors for projects the scientists believe they can complete in one to five years, all having "very important commercial potential" in health-care.

Cell fusion is a vital stage in much genetic engineering; for example, in transferring cloned genes from bacteria to mammalian cells, in the production of hybridoma cells used to obtain monoclonal antibodies, and in plant cell hybridisation. If human-to-human cell fusion could be achieved effectively, it would open immense possibilities for using monoclonal anti-



1. Cells lined up shoulder to shoulder in a weak electric field. 2. A brief pulse of high current breaks down the

cells' resistance to fusion. Right, Dr Valentin Stangelin of Battelle: now scaling the process for commercial use



bodies as highly specific therapeutic agents, and not just as tools for diagnosis and purification, as is the case today.

The Zimmermann technique appears capable of fusing a most any combination of cells. The Battelle scientists say. They envisage an instrument in which the operator will follow the fusion process throughout, through a microscope, identifying and selectively separating precisely the cells he wishes to join.

But the crux of the technique is that it is based on electric field effects and so is amenable to a degree of control impossible to engineer into those methods requiring such agents as polychlorinated biphenyls or Sendai virus, normally used today.

The technique has two steps. First, a weak, inhomogeneous electric field is applied to a suspension of living cells. This overcomes both the Brownian motion that normally keeps the cells in constant agitation, and the negative charge on the outer cell membrane surface that repels other cells. The a.c. field regiments the cells, lining them up "shoulder-to-shoulder" between the electrodes. This is achieved with a frequency of 10,000 hertz - 1 megahertz by a process called dielectrophoresis.

The second step is to initiate cell fusion by applying a brief intense direct current pulse. This causes reversible break-

down of the cell membranes at the point of contact. Pores appear through which the cell contents begin to mix - with minimum loss to the surrounding liquid. The parameters of this pulse depend on the cells to be fused, but typically it lasts only 2-50 microseconds. The fused cells quickly revert to a spherical shape with an impermeable membrane.

Dr Richard Haroz, director of Battelle's Centre for Toxicology and Biosciences, one of three research centres of Battelle in Geneva, believes the technique can be automated to a considerable degree. Its advantages seem to include the fact that a large fraction of cell aggregates can be fused simultaneously, in a very rapid and synchronous manner. It avoids the need for cell fusion agents which may be toxic to the cells.

Yields of hybrid cells are claimed to be "orders of magnitude higher" than the presently used methods, an asset that may prove particularly advantageous in making hybridomas for the synthesis of monoclonal antibodies against weakly antigenic substances.

Dr Haroz's division is already highly oriented towards engineering. Its biggest project is a two-year study of the toxicity of car engine emissions undertaken a few months ago for a consortium of European motor manufacturers. It involves 5,000 animals - "one of the largest inhalation experiments I am

aware of" - which are continuously monitored while breathing exhaust fumes from a battery of engines running for 16 hours a day. He estimates that it will take another year and cost SF 850,000 to develop the basic instrument for cell fusion.

Dr Valentin Stangelin, director-general of Battelle Geneva Research Centres, believes his laboratories have much to offer industry in the tricky stages of trying to scale up laboratory practice in genetic engineering to create new industrial processes. Currently, much good science is faltering here.

Dr Stangelin recounts how his laboratories have adapted to the fast-changing needs of industry in the last few years. Where once they relied heavily on finding clients and sponsors for their own ideas and inventions, now they scour other laboratories for ideas that need their development skills. "We're open to innovation from wherever it comes."

No longer is industry knocking at Battelle's door, seeking innovation. But it is more ready than ever to listen to a well-marshalled case. Dr Stangelin says. Where once he spent about 10 per cent of income on promotion, "today in some cases it's nearer 25 per cent, because they ask us to go much further. They force us to find out what the problems are." His staff has to learn "how to become creative about other people's problems."

PLANS TO CREATE 100-KNOT VESSEL

'Dream' ship driven by superconducting magnets

BY ELAINE WILLIAMS

THE JAPANESE talk of a dream ship travelling through the water at speeds up to 100 knots powered by an entirely new form of propulsion that consumes hardly any fuel.

Within ten years, Japan could have the first commercial vessel operating, driven by an enormous superconducting magnet in place of a conventional propulsion system. Researchers are presently seeking the next stage of funding to pursue the development.

Work on this novel propulsion system started in the early 1960s in the U.S. Ten years later the Japanese took up the idea with the aim of overcoming the main problem that existing technology could not generate enough thrust to power a large ship.

It was Professor Yoshio Saji at Kobe University at Mercuria Marine who produced the first model ships equipped with a superconducting coil to test out the theory of the electromagnetic thrust system of propulsion.

This replaces the engine, shafting and propeller of a conventional ship with a superconducting electromagnet. It uses the thrust created by the reaction between a powerful superconducting electromagnet using liquefied helium kept at a temperature of -269 degrees C installed in the ship and a magnetic field in the sea water created by charging it with electric current, to move a ship.

Propulsion

Prof Saji has been working closely with Dr Akira Iwata, a researcher for Kawasaki Heavy Industries on the dream ship propulsion concept. Dr Iwata is a specialist in low temperature technology and has been involved in specialised research on liquid natural gas, liquid hydrogen, helium and the application of superconductivity - the behaviour of electrically conducting metals at low temperatures.

Dr Iwata was a student of Prof Saji and has continued to collaborate with him on the superconducting electromagnetic thrust system.

Dr Iwata explained that there were no real technical hurdles to be overcome: "The finance



Researchers at Kobe University working on a scale model of the 100 knot dream ship, the ST 500, powered by superconducting electromagnets

is the problem. I think that the project is still at a very fundamental stage and I believe that the state should participate in the funding," he said.

The next stage of the dream ship's development should be the construction of a 10m prototype. Dr Iwata said that no date had yet been set for its construction, though design drawings had already been prepared for Japan's defence department. Funding of about \$700,000 for the next two years have been applied for. Last year Dr Iwata's proposals were turned down, however, he is confident that the project will be accepted by the government this time.

So far the latest model built by the research group is 3.6m long, 70cm wide and 700 kg in weight. Speeds of over 60cm a second have been recorded in sea trials.

Prof Saji believes that a 10,000 ton submersible tanker built on the dream ship principle could travel at 100 knots. The advantages of electromagnetic thrust is that little fuel is needed, the power system will take up far less room than a conventionally powered ship.

Control

The dream ship has not without its problems, however. Very precise control of the temperature is required if the superconducting properties of the metal used in the electromagnet are to be maintained.

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Computing

Japan pools its talents

JAPAN'S latest move in the race to develop advanced computer technology - the so-called fifth generation machines - has been to bring together 40 of the country's top young computer scientists.

Handpicked by Mr Kasuhiro Fuchi, a pioneer of Japan's computer industry, the scientists will work at a government-funded laboratory in Tokyo. All the researchers are on loan from eight Japanese computer manufacturers.

The work of the new laboratory, designated the Institute for New Generation Computer Technology - is being co-ordinated by the Ministry of International Trade and Industry which is spending U.S.\$400m over the next three years on the project.

Mr Fuchi said that the institute's first priority is to develop a computer with a different internal structure than conventional machines, which is much simpler to program. Presently the Japanese scientists at the institute are working with a computer language called Prolog which is a British development.

Japan is not alone, however, in its desire to develop the next generation of supercomputers. Companies such as IBM and various U.S. government sponsored projects contain many of the elements of the fifth generation computing project now underway in Japan.

Electronics

Regulator

FOR applications in remote on/off power control, battery power supplies with back-up power, Dialogue Distribution have a dual output, logic controlled voltage regulator. This is the L71005 developed by Linear Technology in the U.S. More information on the device is available on 0276 682901.

BOND DRAWINGS

ASSOCIATED MUNICIPALITIES OF DENMARK US\$15,000,000
5 3/4% 20 YEAR EXTERNAL LOAN OF 1964.

HAMBROS BANK LIMITED hereby gives notice that in accordance with the terms and conditions of the above loan, the redemption for 30th June 1983 has been effected by the purchase of US\$47,000 (nominal) and the under-mentioned bonds amounting to US\$1,312,000 (nominal) were drawn on the 18th May 1983 for redemption in part. The outstanding balance after the 30th June 1983 redemption is US\$1,035,000 (nominal).

The draw is made by the purchase of the following bonds: 100,000 of 1964, 100,000 of 1965, 100,000 of 1966, 100,000 of 1967, 100,000 of 1968, 100,000 of 1969, 100,000 of 1970, 100,000 of 1971, 100,000 of 1972, 100,000 of 1973, 100,000 of 1974, 100,000 of 1975, 100,000 of 1976, 100,000 of 1977, 100,000 of 1978, 100,000 of 1979, 100,000 of 1980, 100,000 of 1981, 100,000 of 1982, 100,000 of 1983, 100,000 of 1984, 100,000 of 1985, 100,000 of 1986, 100,000 of 1987, 100,000 of 1988, 100,000 of 1989, 100,000 of 1990, 100,000 of 1991, 100,000 of 1992, 100,000 of 1993, 100,000 of 1994, 100,000 of 1995, 100,000 of 1996, 100,000 of 1997, 100,000 of 1998, 100,000 of 1999, 100,000 of 2000, 100,000 of 2001, 100,000 of 2002, 100,000 of 2003, 100,000 of 2004, 100,000 of 2005, 100,000 of 2006, 100,000 of 2007, 100,000 of 2008, 100,000 of 2009, 100,000 of 2010, 100,000 of 2011, 100,000 of 2012, 100,000 of 2013, 100,000 of 2014, 100,000 of 2015, 100,000 of 2016, 100,000 of 2017, 100,000 of 2018, 100,000 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Royal Academy Summer Exhibition

Revisiting the middle ground...



"Reclining nude" by Mary Harkness

Plus ça change... Certainly it would be unfair to deny that the Royal Academy has changed considerably over the past 20 years or so, and that the process continues, and yet... plus c'est la même chose. Here we are again with the sun shining (at last, for the picture shows at least) for the summer show that must remain at the heart of the Academy's affairs.

This year's show, the 235th, is undemonstrative, even different in its selection and arrangement, the principal and walls in galleries II and III for example, which have so often carried the student and the over-blown, given over now to cool abstraction or elegant bathos: Scott Stephens, Pasmore, Moyaert, Camp, Flavia Irwin and Sandra Blow, with David Tindle's deceptive and obsessive reticence close at hand and rightly winning the prizes, £5,000 from Johnson's War (other prizes from Charles Westall, Pinner, George Rowney, and general sponsorship from 1983).

The abstraction sits quite at

home, unselfconscious and uncontentious now, and there is rather more of it than at first, and well spread out—Gillian Ayres, Whitshaw, Ingham, Copnell, Clarke—the abstract gets in the furthest corner a thing of the past.

It is altogether a fascinating show, much stronger than it might seem and containing some very distinguished things—Bower, Blackadder, Tindle, Adams, Stephens, Ayres, de Cuiry, Kendle, Armfield, Greenham, Lessor; only a few names at random, that you must follow up for yourselves. Sadly, William Brooker A.R.A. died recently. He had not meant to show this year, and it was evidently too late to put together the customary memorial group of works. That must wait.

No free institution can be better than its own membership, no show better than the work sent in and the means devised to choose it. And nothing can ever be done to improve things overnight. It must be said that

the membership is immeasurably stronger now than it was 20 years ago, and that the veterans of that period, admirable artists among them, had begun that process of improvement even then.

The problem is not so much that the Summer Show is always the same but rather that it always appears to be so, the style and density of the hang, the disposition of the galleries, even the physical nature of the place itself, all contributing to an insistent feeling of familiarity. But when we look again at the work itself, the differences really do begin to declare themselves if only we remember what was there ten years ago.

The major difference is one which embraces and justifies all the other changes, for it is now clear that the Summer Show, though it remains the object of amateur ambition, engages the support of practising professional artists, serious, competent, unexceptional, committed.

Though the members themselves may supply a gratifying gloss to the Summer Show—and with the likes of Blake, Hoyland, Allen Jones, Elizabeth Blackadder, Tindle, and Greenham among them, that is really no surprise—it is the rest who supply its substance and give it its characteristic flavour. The Academy is back firmly on the middle ground it always meant to occupy.

The sculpture is a subject in itself; I am increasingly persuaded that its representation in the Summer Show is unfair for being so necessarily constrained. Any structures against particular pieces would be therefore arbitrary and invalid. All I shall say is that the Miro is a marvellous monster, and a fitting 90th birthday salute to the Academy to a great artist; and that the case for a separate sculpture open exhibition at the Academy could at least be argued.

The Summer Show continues until August 28.

WILLIAM PACKER

... and the mediocre curiosity shop

Every year it is harder and harder to imagine why any architect worth their salt bothers to show at the Royal Academy. The "little room" devoted to architecture is crowded with mediocre exhibits fighting to prove their very existence. It is much more like a cabinet of curiosities than a serious exhibition about the state of the art of architecture in Britain in 1983.

At a time when any student show in almost any school of architecture can produce beautiful drawings it is almost incredible that some of the ancient, and not so ancient, leaders of the profession can get away with some of the rubbishy presentations that are to be seen on the walls of Burlington House.

There is one outstanding new building proposal, the International Garden Festival Hall designed by Arup Associates. This is a large glazed building with a beautiful form. It will be a worthy successor to the great glass houses of Decimus Burton. The clarity of its plan and the elegance of its design makes this an outstanding achievement.

No one will be able to miss the presence of Britain's leading high-tech architect, Norman Foster. A model of his Hong Kong and Shanghai Bank which was much better displayed in New York recently, dominates the room while out-

side in the car park a giant fragment of the polished and glazed structure glowers aggressively at the passing traffic.

Apart from these two highly engineered projects what remains? The dozen or so Academician architects are allowed to display their wares as an amateur right.

The oldest architect Academician, Erno Goldfinger, has raked out two boring drawings of his 1960s housing estate in North Kensington. What a

designed a bar near Ironbridge where he has suddenly rediscovered the letter column. The same firm shows a chess set in the pastel colours of the moment and in classical forms. A tribute to Richard Shepherd who died recently includes his firm's masterpiece, Churchill College at Cambridge. It looks well today with its good manners and unassertive presence among well hand-scaped lawns.

It is hard to believe that for the past two years the Royal

Colin Amery visits the RA's architecture exhibition—and leaves depressed

rigid and deadly place it looks in the drawings and the reality is worse. There are several of the losing entries from the National Gallery competition—one by the maverick architect Roderick Gradijick shows a very badly drawn Lutyns style dome on top of the existing building. Post-modernism obviously does not go down well with any of the selectors.

There is a taken entry or two by John Simpson who has

Academy has been flirting with the idea of an exhibition of modern architecture. As a body it is clearly not of one mind on the subject and not particularly interested in the enlightenment of the public.

No one would believe that this is a fascinating moment in the development of architectural ideas, there is such a sense of déjà vu in this little lot that a visit to the architecture room can only depress the visitor.

There seems to be a spurious prestige attached to the Royal Academy. It does not uphold the highest standards in either art or architecture. It has no comprehensive exhibition policy except to follow the middle path—and endlessly beg for funds.

The Royal Academy could easily afford two or three of its fine galleries to be used on a regular basis for an intelligent and enjoyable series of architectural exhibitions. It occupies the best site in London, far more conveniently located than either of the RIBA exhibition spaces.

Loan exhibitions of drawings from the British Architectural Library with scholarly catalogues could, with a mixture of international and contemporary shows, lectures and films, make the R.A. a credible centre for the encouragement of a higher standard of aesthetic understanding of the art of architecture.

Everyone must have given up hope that the architect president will straighten his smock and become a centre of excellence. His period of office has been a miserable failure for architecture. It is time for some new blood and some new ideas—and a little imagination. If you believe in advancing the art of architecture this year's performance can only depress you.

Robert Cohan Gala/Sadler's Wells

Clement Crisp

"Thank you, Robert Cohan" was the message emblazoned on the tee-shirts worn by London Contemporary Dance School students at last week's gala honoring Mr Cohan's sixteen years as guide, inspiration and effective creator of a magnificent company and school. And, watching the beautifully trained, beautifully skilled bodies of the L.C.D.S. dancers in his Class which closed the performance, we could see every reason for this gratitude.

Thursday night also showed us Mr Cohan's *Stabat Mater* and his *Forest*, works which, like

Class, indicate something of the creative range of his choreography, and illuminate how superbly he has achieved what Robin Howard, whose was the first impetus behind school and company, hoped he might do to bring American contemporary dance to this country as a naturalised art.

This is, in essence, what Robert Cohan has done. His gifts as a teacher, his ability to inspire affection and great endeavour from his artists, his sensitivity to their talents as manifest in his dance works, are facets of a tremendous tal-

ent which we have been privileged to observe over these sixteen years in the sure but steady progress of the London Contemporary Dance organisation.

The recent great success of the troupe in New York, and the exultant performances that made this gala so thrilling, are the visible rewards of Mr Cohan's endeavours. The invisible but greater reward is the stature of the troupe, its creative energy and its technical assurance.

He has made contemporary dance authentically British.

The dance style he has encouraged, full, lean, bright in definition and apt in expression—and the visual clarity with which he has signed his every creation, are now significant and potent forces in the dance culture of our time. And there is still, happily, much more for him to do. Not a paucity, for all my admiration, and certainly not an obituary, this notice is my own tee-shirt expression of thanks. Thank you, Robert Cohan. And, honour where honour is due, thank you, Esso, for sponsoring the gala.

Bugsy Malone/Her Majesty's

B. A. Young

Bugsy Malone isn't only played by children—48 of them, aged between 10 and 16—it is played for children. I don't mean that the grown-ups won't enjoy themselves; on opening night they gave the kids a standing ovation of utmost enthusiasm.

But the story is a boys' paper version of New York gang warfare in 1928; the weapons the gangsters fight with are constipated and "splurge guns," mock sub-machine-guns that fire blobs of foam; and two cars in the chase around the deserted warehouse are pedal-driven.

Michael Doleen's stage adaptation of Alan Parker's film script is exciting and occasionally sentimental, but no one pretends that it is any more real than a game of cowboys and Indians. A game is in fact what we are seeing, but a game highly organised by Michael Doleen, who is director as well as adaptor, and played with 48 worth of toys designed by Ralph Kuttal, as well as some shaggy music by Paul Williams.

There is a simple plot to hang the excitement on. Bugsy (played on first night by Jeremy Gilley, but there will be alternating casts to meet the licensing regulations) loves Blousey (Jocelyn Waller) who wants to go to Hollywood and be a star. He is a clever fellow for a boy, and so is Bugsy Malone. But Blousey is granted a magnificent dream of Hollywood, against a backdrop of "Hollywood" in shining capital letters, just as it is in the hills beyond Los



Jeremy Gilley

Alastair Muir

Lewis), who comes to his assistance, is so talented a fighter that Bugsy gets him a manager as a pro, and so makes another \$400. I'm happy to say there's no conventional happy end; the last song of the evening, apart from reprises, is called "Down and out," and we finish with a tremendous all-in battle.

Kids' games are always unfailingly slanted towards the boys, and so is *Bugsy Malone*. But Blousey is granted a magnificent dream of Hollywood, against a backdrop of "Hollywood" in shining capital letters, just as it is in the hills beyond Los

Angeles. She shares a pretty song with a top-hatted-and-tailed chorus; and there is a rousing dance number by Flizy (an enchanting black boy, Scott Sherin), who also shows up well as a singer when he tells us he "was born to be a dancer."

Don't expect to see any infant Oliver or Gielguds. What these young people are doing is copying what they have seen on the movies and the television, no more than that. I suspect the songs are mimed to recorded tapes; Mr Gilley, aged 14, has an unbroken voice, but when he is singing he can reach some-

where round the A at the bottom of the bass staff. Any attempt at serious acting would spoil the illusion we have of seeing a lot of kids enjoying themselves. On the other hand, they are pretty well organised by Mr Doleen, and the choreographer, Gillian Gregory, has made sure that their not-too-difficult dance routines are carried out keenly and smartly. Mr Kuttal's three-decker set is a wit, giving us an instant sight of a score of different places with the aid of Joe Davis's lighting. The second and third storeys slide nearer or farther as called for.

Mozart's Die Entführung

David Murray

Die Entführung aus dem Serail returned to Glyndebourne on Sunday in Peter Wood's production—much criticised in 1980, somewhat revised now, but still a sad specimen. The performances are certain to improve during the run: the rough co-operation between pit and stage will be tightened, the spoken dialogue will be less halting, the new cast-members will find their feet. Ryland Davies' Belmonte will recover his voice (strained and scopy at the start, he revived in the middle and then went into a lustreless decline). The production, I fear, is irretrievably substandard.

It looks like a well meant, tolerably competent rescue job on a dim opera. For anyone who holds *Die Entführung* to be unimprovable in its own inimitable terms, it is an affliction. Bluntly, Mr Wood seems quite insensitive to the expressive power of Mozart's music: at key points where it

will carry everything if left alone, the production either buries past or, more often, smotheres it in stage-business. Where a dramatic effect—suspense or sudden joy or despair—needs pertinent direction, it is fudged. Pedrillo's magical serenade is punctuated by crude alarms; the rapturous reunion-quartet is played staggering over cushions in what seems to be the Credit Card Room of a Turkish brothel, surveyed by a supernumerary voyeur (attached to Constanze like a pointillist echo of the Marchallin's little Mohammed). The new Constanze is Elizabeth Prueft, an interesting, slightly fragile soprano with two demeanours, passive melancholy and passive delight. Her "Ach, ich liebe," had serious "Dornes sono" ambitions; "Traurigkeit" was impossibly slow and shapeless—Mozart would never have written for such a tempo without elaborate ornamentation: "Marien aller Arten" showed unexpected grip

Seiji Ozawa/Festival Hall

Max Loppert

Seiji Ozawa, a conductor of energy, a vigorous and pointed technique, and remarkably assiduous and discerning ears, is nearly a very fine Stravinsky conductor indeed; yet in each of the two Stravinsky performances given by the Philharmonia Orchestra and Chorus under his leadership on Sunday, there were passages of over-assertion, of railing of excessive underlining and point-making, that kept the whole work from being completely realised.

The tenor line of the chorus in the opening movement of the *Symphony of Psalms* was subject to roughness of tone and pitch. This flected and spoiled the impression; but even later on, when the absolute precision demanded by the music were beginning to be found at all vocal and instrumental levels, one tended to pay attention to the way phrasing was being moulded and punctuated, not to the gathering momentum of the music. In the finale, which Ozawa kept to an impressive

steady tempo, the property timeless, airborne majesty was never quite forthcoming—enjoyment of sound took precedence over full comprehension of sense.

Ozawa's *Oedipus rex* was very exciting; powerfully forged, urgently shaped, sung with commitment and security by the chorus and with splendid authority by the soloists—Robert Tear, Jessye Norman (immensely grand, statuesque, and passionate as Jocasta), Gwynne Howell, Martyn Hill, Alan Rickman, matter-of-fact, crisp, and unheroically poetic in his verbal emphases, was the best narrator I have heard. Yet here again the whole work lacked wholeness—whether in the da capo of Jocasta's aria, softened and slowed-down for effect, or in the final choral narration, driven to white heat and massive climaxes, the intervening presence of the conductor was indicated in a way that seemed essentially, and even distractingly, un-Stravinskian.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

May 27-June 2

Opera and Ballet

WEST GERMANY

Berlin Deutsche Oper: Lucia di Lammermoore has Edita Gruberova in the title role. Die Hochzeit des Figaro, produced by Günter Friedrich, has Lucia Paeckel and Wolfgang Brendel in the main parts. This week's highlight is Puccini's *La Bohème* with Miroslava Freni and Barry McDaniel. (4381).

Hamburg Staatsoper: Die Wunderstage Schatzkammer by Bernd Alnis Zimmermann; Die Hochzeit des Figaro with fine interpretations by Judith Beckmann and Harald Stamm. (51151).

Frankfurt Opera: Parsifal in the ultra modern production by Rudi Berg-haus; Die Hochzeit des Figaro for the last time this season. Tosca, sung in Italian, with Raimund Kabis in the title role. Stravinsky's *The Rake's Progress* rounds off the week. (23621).

Cologne opera: Umberto Giordano's rarely-played *Andrea Chénier*, produced by Willy Decker, is premiering this month. It is conducted by Nello Santi and has Ernesto Veracini in the title role. *Tosca* with a cast headed by Jon Vickers and Johannes Meier, was revived triumphantly. Further performances are Don Pasquale and Turandot. (20781).

Münster Bayerische Staatsoper: Madama Butterfly has Gwyneth Jones in the title role. La Bohème stars Katia Ricciarelli in the part of Mimì. La Cenerentola, a Jean-Pierre Ponnelle production, features Barbara

Stanzinger (3324/2555); Der Barbier von Sevilla, Elmer Tannhäuser, Voltaire (3324/2557); Gaspareone, Der Zigeunerbaron, Der Zarewitsch, Die Zauberflöte, Rahmonkhater (3326/26): Succoocio (33151).

LONDON Royal Opera, Covent Garden: Die Meistersinger revival, not quite on the level of last season's, still has a good deal to commend it—notably Colin Davis as conductor and Hans Sotin, Lucia Popp, Gwynne Howell and Gerald Evans among the cast. Don Giovanni shows off a dashing new occupant of the title role, Samuel Ramey, one of the world's best Leporellos in Stafford Dean, and a commanding trio of ladies in Mmes Fiebigler, Fe Kamewa and McLaughlin. Hoff Heuter makes his first conducting appearance at Covent Garden. (260106).

Coliseum (333151): Festival Ballet with Romeo and Juliet and a new triple bill. Sadler's Wells, Rosebery Avenue: London Contemporary Dance Theatre triple bill celebrating the work of



Geraint Evans at the Royal Opera, Covent Garden

Robert Cohan, followed by Cohan's Dances of Love and Death. (278816).

PARIS

Verdi's *La Traviata* conducted by Giuseppe Sinopoli in a new production by Luciano Damiani with Luciano Pavarotti as Rodolfo, Nadine Denize as Frederica and Montserrat Caballé as Luisa. Paris Opera (742750).

Les Indes Galantes, Jean-Philippe Rameau's opera-ballet in a new production conducted by Philippe Herreweghe, Choreography by Viola Farber. TM2-Claretet (261196).

Coloured Mimes, acrobats and dances of the Peking Opera at the Palais des Congrès (1331439).

NEW YORK

New York City Ballet: New York premiere of Teyla, Cheryl's Once Upon a Time, to music of Alexander Glazunov and starring Mikhail Baryshnikov highlights the week's mixed repertoire. New York State Theater, Lincoln Center (850450).

Les Grands Ballets Canadiens: 25th anniversary of this versatile group, with a premier homage to Fred Astaire, in seven sections to various songs as part of the mixed genres in their fortnight programme. City Center, 55th E. of 7th Av. 5817907).

CHICAGO

Barber of Seville (Athenaeum): Chicago Opera Theater production. In English, stars Cynthia Mumme, Rosina, Robert Orin as Figaro and Abram Morales as Count Almaviva, with Mark Fint conducting. (2936 N. Dearborn, 383 6539).

The Next Step (Auditorium Theatre): Dancer and choreographer Carrie Stern shows an Eastern influence in her work that combines autobiography with homage to American popular arts as well as reflections on such contemporary themes as the Iran-Iraq war. (70 E. Congress, 822110).

ITALY

Milan, La Scala: Schönberg Tryptich and Così Fan Tutte conducted by Riccardo Muti.

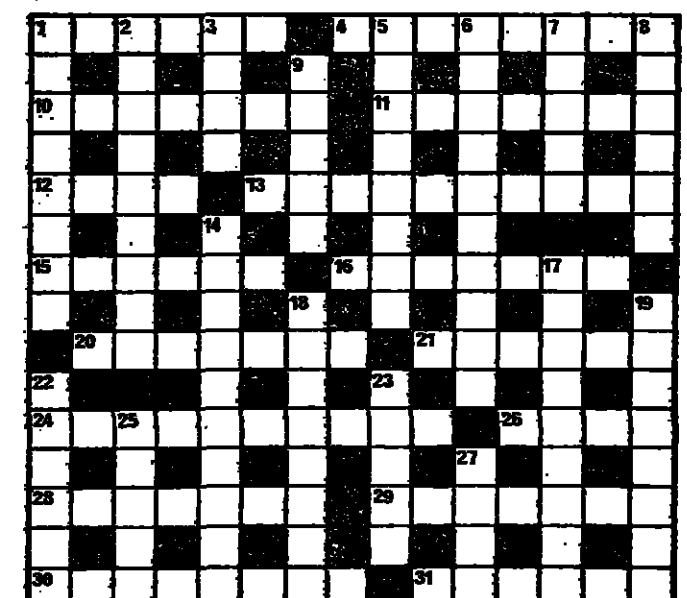
F.T. CROSSWORD PUZZLE No. 5184

ACROSS

- Capital maxim in time of conflict (6)
- The courtesy of the townsman (8)
- Bill can sing well, it seems (7)
- One who swears or turns into a drunkard (7)
- They may be pierced or just pricked (4)
- Application for injury benefit, perhaps (10)
- When I'd get into a brawl? (6)
- Arab that is bound to be a wanderer (7)
- Independent air of Ned's cat, perhaps (7)
- 21 and 24 Violence run forth, perhaps (6, 10)
- Stand for no bull (4)
- New moral we find in old writer (7)
- Cleopatra's? (7)
- Dog Latin as a composition (8)
- Where French exchange rates would be ours? (6)

DOWN

- Send a letter, but don't expect anything to come of it (5, 3)
- Location for a bank holiday? (9)
- Altogether it's sour, but one drop is sweet (4)



Solution to puzzle No. 5182

DOWN
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Tuesday May 31 1983

Two cheers for Williamsburg

THE expectation of economic recovery has dominated the atmosphere and the outcome of the economic summit at Williamsburg. This economic optimism has allowed the seven heads of state to agree that the emphasis on containing inflation must remain and that the squeeze on structural budget deficits must continue. It is a most valuable international endorsement for Mrs Thatcher and her policies in the run up to the British general election. Whether it is an example of collective complacency to rival that of the leaders' last meeting at Versailles will only become apparent long after this election has taken place.

Beyond a sustained and newly structured commitment to the new economic orthodoxy, the other notable element was the joint statement on arms policy. It was something of a coup for the U.S. president that he could persuade European leaders of varying degrees of readiness from a delighted Mrs Thatcher to a troubled President Mitterrand and Mr Nakasone in Japan to come out with a united response to the latest Soviet threats to increase still further the number of intermediate range nuclear weapons deployed in Europe.

Complacency
 Much of the current unease within the alliance is ascribed to the lack of European faith in the style and motives of the U.S. president. The arms statement—though it had nothing directly to do with the reason d'être of these yearly meetings—was the most tangible sign from Williamsburg that the President was able to assert himself as Western leader and persuade his allies that a show of defence solidarity was desirable.

An important test of a modern summit is the postures adopted by the leaders and their ministers before their own media immediately afterwards. It was the conflicting statements on East-West trade and the value of exchange rate intervention by central banks which quickly became a source of such a sour feast—and only later that the general impression of

complacency asserted itself as the Western recession deepened and the international banking crisis broke.

There may be scope for a repeat after Williamsburg, and once again along the old Franco-American axis of tension—but the excuses for such a row have this time been studiously reduced as far as possible. The U.S. has managed to restrain its zeal in the matter of East-West trade. While President Mitterrand's idea for a new Bretton Woods monetary conference has been resisted its underlying motive has not been ignored by any means.

The meatiest part of the communiqué last night was aimed at tempering the exchange rate volatility and the lack of economic policy co-ordination which the French president finds so worrying. The governments have agreed to develop further the process of consultation on economic policy which was set in train at Versailles.

Review
 To this end the five major economies, the currencies of which make up the Special Drawing Right of the IMF, will co-operate in a regular medium-term review of their fiscal and monetary policies through the IMF's "surveillance committee". The aim will be to react to unbalanced exchange rates and to reduce exchange rate volatility by a greater degree of convergence of economic policies.

This has involved setting guidelines along which these different national policies should converge. It is in these guidelines that the current orthodoxy of monetary and fiscal discipline are most visibly enshrined.

We shall have to see how this more structured quest for economic convergence works out in practice. But if there was one pointer to be wished from this summit it was towards greater acceptance of the interdependence of economies in the modern world and greater willingness of governments to take this fact into consideration in managing their countries' affairs. In this matter Williamsburg has produced no giant leap but at least a shuffle in the right direction.

The Alliance all over the place

ONE OF the most striking features of the British General Election campaign so far has been the steadiness of the opinion polls. If anything, the Conservative position has strengthened by a couple of percentage points or so, so that the Party's standing is now somewhere between 45 and 50 per cent. Labour has fallen back by about the same amount so that it is now in the very low thirties.

As for the Alliance, it may take some comfort from the marginal increase in support shown by some polls published during the holiday weekend, but it is still registering only around 20 per cent which would give it fewer seats than it had in the last Parliament.

With polling day little more than a week away, two conclusions can be drawn. The first is that the Tory lead looks pretty well impregnable, and the second is that the chances of a Labour victory look remote in the extreme. The more interesting questions therefore concern the Alliance. Why has it been trailing so far and can it pick up significantly in the next few days?

It was clearly concern about the poor performance to date that added urgency to the meeting of Alliance leaders at the weekend. Mr David Steel, the Liberal leader, we are told, will now play a more prominent part in the campaign with Mr Roy Jenkins—still the "Prime Minister-designate"—falling more into the background.

Confusion
 Yet it cannot be only Mr Jenkins' image as a slightly elder statesman or the confusion sometimes seen by the twin leadership which has caused the Alliance to trail beyond expectations. Far more probable an explanation is an inability to establish a separate identity between the two major parties.

To put it crudely, whenever the Alliance leaders allow themselves their natural racial leanings, they begin to sound like Mrs Thatcher—Dr David Owen is only the most obvious example—and whenever they retreat to the so-called policies of moderation, they begin to sound at best like a Labour Party Mark II.

It is sometimes said that the Alliance has no policies. That is quite untrue, as anyone who has read the manifesto, *Working together for Britain*, will

testify. There are far more policies there than contained (say) in the Conservative Party's equivalent. Some of them are rather good, like the plan for the complete integration of the tax and benefit systems. It is absurd that at present we should have 44 different means tests. Here the Alliance could out-Thatcher Mrs Thatcher. Yet the plans for reform have hardly emerged as a keynote of the Alliance campaign.

Some of the policies are rather bad, like the proposals for a new prices and incomes policy, "agreed norms," a single, independent assessment board for public service pay, and a "Pay and Prices Commission" to monitor pay settlements in large companies. That really does sound like Labour Mark II or even III. For there is one thing that the present Government has proved, it is that it is possible to have wage negotiations without involving an excessive bureaucracy.

Achievement
 True, unemployment and the fear of the dole have introduced a new discipline and there may be added urgency to the public sector. It may also be true that wages are still rising too fast. As the accompanying article suggests, it might need a wage round of only 0.4 per cent to produce a virtuous circle in which international competitiveness rose while sterling remained firm. But the great achievement under the Thatcher Government has been to create a greater consciousness of the market place, both at home and abroad.

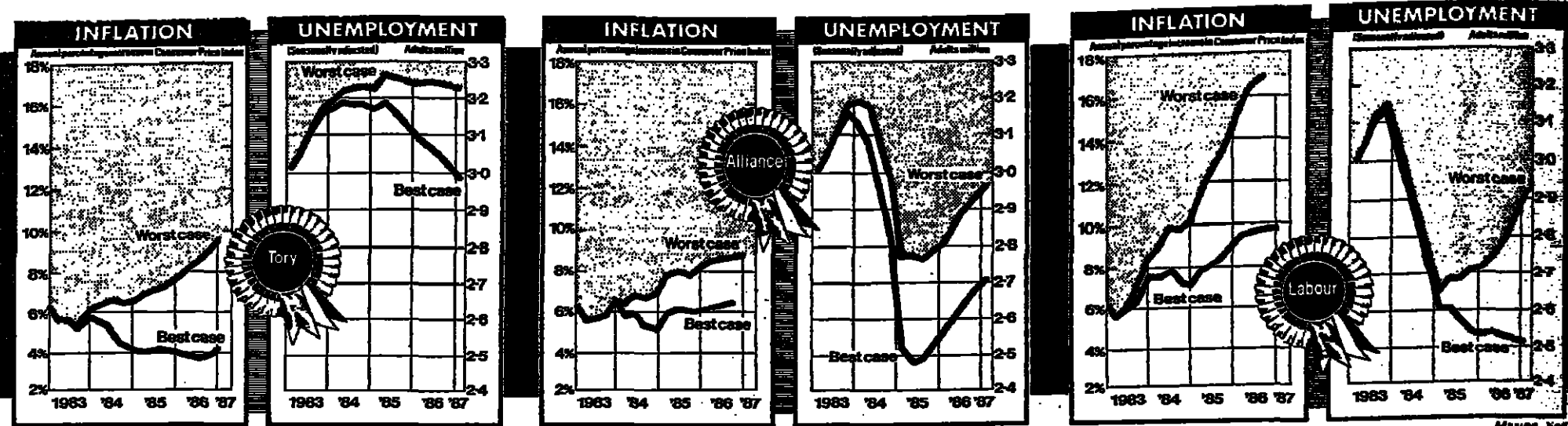
The Alliance has only a few days left in which to establish a more distinct personality than it has managed so far. It ought to be able to attack the bulk of the Government's economic policies more tellingly than it has done to date. Read closely, the latest trends survey from the CBI, published today, is not all that cheering.

The Alliance might also show more humanity than the Tories on social matters and on unemployment. Some of the Tory candidates, for instance, seem to be neither very liberal nor very internationalist. For the moment, however, the opinion polls are probably right: the Alliance does not look like a clear enough alternative to justify a major switch of votes.

BRITAIN'S ECONOMIC FUTURE

There are risks on all sides

By Max Wilkinson, Economics Correspondent



THE choice of economic policies offered to Britain's voters by the three main parties is not only much wider than in any election since the war, but in many ways more confusing. Even the apparently straightforward Conservative approach is hedged with uncertainty, since it is, in an important sense, the most radical of the three. Unlike the Alliance or Labour strategies, it represents a clean break with the 30-year tradition of post-war economic management.

However, in spite of the differences of strategy, there is one major question which is crucial to the plans of all three parties: how can they avoid the traditional British problem of wages running out of control?

This is the central question which emerges from a series of computer simulations designed to test the possible effects of the three programmes and just completed by the London Business School.

The LBS analysis underlines the extent to which the three programmes offer different combinations of risks and benefits. Broadly, the Conservatives offer the safest bet financially, but the least improvement for unemployment in the medium term. The Labour programme could bring down unemployment, but not by as much as the party hopes and at the risk of a financial crisis if it fails. The Alliance comes somewhere in between with higher risks of inflation than under a Conservative plan, but with a faster reduction of unemployment in the medium term at least.

To illustrate this range of possible outcomes, the LBS has done six simulations for the "best case" and "worst case" under a Conservative, Alliance or Labour government.

It should be stressed that these are not forecasts, since they are based on a number of fairly arbitrary assumptions about how the policies might in practice be implemented. And, in case a "Heath Warning" is needed, the graphs derived from this exercise should not be used to pick a winner on June 9.

They do, however, illustrate the different ranges of uncertainty attached to each policy and raise a number of interesting questions about them.

Firstly, they suggest that the Labour party's hopes for reducing unemployment to 1m in the life of the next Parliament are over-optimistic. The LBS thinks that even on a favourable view, it would be unlikely to get unemployment below 2.5m by the beginning of 1987, a cut of some 600,000 compared with the level expected by the end of 1983.

The Alliance's hope for reducing unemployment by 600,000 in two years could be achieved in the LBS's view, partly through special employment schemes; but even in the "best case" it thinks recovery might be too weak to sustain the fall in unemployment after the initial period.

This is because it foresees the possibility of renewed pressure on company profits if wage increases move ahead of prices. Companies, it is assumed, would follow the pattern of 1980 and 1981, by keeping a tight rein on labour forces to reduce costs.

On the wage front, the LBS suggests that for the Conservatives a wage round of 3 to 4 per cent could produce a virtuous circle in which international competitiveness rose while sterling remained firm, and public borrowing could fall while taxes and interest rates were cut, thus helping to keep down prices and wage demands and to stimulate investment.

On the other hand, a wage round of 7 to 8 per cent next year could start the opposite process with a vicious circle of the main term at least. Rising unemployment and increased pressure on government borrowing. In this case the LBS's simulation suggests that unemployment could go on rising until it might then start to level out.

Much the same uncertainty would face an Alliance government even though its objectives are different. If its wage policy were broken, and inflation started to accelerate, the competitiveness of industry would come under pressure, the growth in output would slow down, and unemployment would start to rise again. The LBS suggests that on these assumptions

the Alliance's policies could lead to higher inflation and unemployment compared to the other two parties, especially in the "Worst case" scenario.

CONSERVATIVES
 Best case: The pound remains firm at about its present level, interest rates fall somewhat faster than expected and wage demands continue to moderate, with average earnings rising at an annual rate of 4½ per cent in the spring of 1985. Low inflation leads to some easing of policies.
 Worst case: Wage settlements do not fall significantly in 1984. Average earnings rise at 7 to 8 per cent. A result, sterling falls steadily. This increases inflationary pressures and forces the Government to take further restrictive measures.

ALLIANCE
 Best case: Sterling falls initially by around 7 per cent but the rise in earnings is controlled for two years by a wage policy. There is an initial fall in unemployment. However, the rate of increase in average earnings starts to accelerate from 1985 and a squeeze on profits puts unemployment on an upward track.
 Worst case: Sterling falls more sharply, generating greater inflationary pressure. Incomes policy is not successful in containing average earnings which rise about 2 percentage points faster than inflation in 1984. Direct action to cut unemployment is less successful and higher wage settlements reduce competitiveness and slow down growth.

LABOUR
 Best case: Sterling falls by about 15 per cent after the election but remains steady thereafter. Average earnings rise some 3 to 4 percentage points faster than the inflation rate, which is checked by price controls. Special jobs schemes make a substantial initial impact on unemployment and therefore the extra spending programme keeps the total moving down.
 Worst case: Sterling falls more sharply to about 20 per cent below its present level. Inflationary pressure helps to push wage rises up substantially faster than prices. Real interest rates rise as a result of increased Government borrowing. International agreement is not successful in boosting exports, although imports are restrained by controls. However, in 1984 rising inflation causes the pound to fall again and the Government is obliged to defend it by tightening policies and reversing the main term at least.

to a "worst case" Alliance regime might succeed in cutting unemployment by only 200,000 after four years at the price of raising the inflation rate to around 9 per cent.

The uncertainties surrounding a Labour programme are clearly much greater. Even the party's own economists have shown that success in controlling wages could be decisive in producing success or failure. To tackle the long-standing problem of wages, the parties have three very different prescriptions:

● The Conservatives will rely, as at present, on tight monetary and fiscal controls, a slow rate of growth and the deterrent effect of high unemployment to keep wages down. A firm exchange rate may also help to control prices.
 ● The Alliance would use tax cuts to depress prices, and the threat of tax increases to deter companies from agreeing excessive wage settlements. If this failed, it would impose a statutory incomes policy.
 ● The Labour party remains deeply divided about how to

restrain wages although it recognises that without some form of restraint its expansion plans would soon run into a financial crisis. Its manifesto avoids mention of incomes policy and talks only of discussions with the trade unions about the impact of "costs."

On wider economic policy, the Conservatives are not planning any significant relaxation of the economy. Instead of trying to break out of recession by increasing government borrowing, as their predecessors would have done, they plan to continue their efforts to reduce deficit to only 2 per cent of output by 1985-86, a very low figure by international standards.

However, there is no modern precedent in the UK at least, to help voters judge whether these tight financial policies can provide the basis for a significant cut in unemployment during the next five years.

The Conservatives may be experimenting without a precedent, but on the other hand, Labour's more traditional remedy of increased public spending would be on a scale far greater than any peacetime example—including probably the 1972 "Barbaric Boom" under the Heath government.

The exact size of Labour's planned reflation is not spelled out in its manifesto, although an expansion of £11bn—almost one and a half times this year's public sector borrowing target—was proposed in Labour's alternative budget in March.

Even if this were phased in over more than one year, it is clear that major strains would be put on the financial and labour markets, with an obvious danger of an old-fashioned sterling crisis.

To counter these pressures, the Labour party has proposed a wide range of controls and arrangements designed to modify the markets' behaviour. These include:

● The re-introduction of exchange controls to divert the overseas flow of institutional investment into government securities.
 ● Administrative action to curb imports including perhaps direct controls.
 ● Price controls.
 ● Planning agreements with

major companies.
 ● A national economic assessment which would include trade unions and "take account of the impact of future cost increases in the future rate of inflation."

The major question about Labour's prescription is whether these controls could be effective in preventing the policy from being swallowed up in a series of financial earthquakes.

Even though it has said that it would welcome a "more competitive" level of sterling, too steep a fall would present it with the danger of a new inflationary spiral. Higher import prices resulting from the devaluation could lead to increased wage demands, which in turn could scare the markets into marking sterling down even further.

This is the main risk which persuaded the Alliance to offer a much more modest fiscal injection, backed by a more explicit pledge to control wages, if necessary by a formal incomes policy.

The Alliance is more specific than the Labour party about the exact size of its stimulus. It says it would increase public borrowing to around £11bn (compared with the current year's target of £5bn).

This appears to be about half the increase in net borrowing that would be required under Labour's plans.

Both the Alliance and Labour base their strategies on an easier monetary policy, although neither has explained the extent to which they would be prepared to "print money".

The Conservative option appears the safest financially, but according to the Business School and most other forecasters, offers little hope on unemployment for the next three years.

If one takes a pessimistic view of both policies, the Conservatives might produce higher inflation and higher unemployment than the Alliance by 1986.

On an optimistic view, the Alliance might provide some 300,000 more jobs than the Conservatives in 1986 at a "cost" of some 2 percentage points on the inflation rate.

However, no economic model can say whether that is worth trying for.

Men & Matters

ICI switches on

Can the entrepreneurial spirit be kindled in a company as big as ICI? That's the challenge for a novel corporate venture by the chemicals giant into electronics, a challenge already being met by some of its formidable competitors excited by the idea of "electronic chemicals".

The entrepreneur ICI has chosen to head the new electronics group, John Mellish, who has experience in trying to open new business opportunities for one of its most inventive divisions, organic chemicals.

Mellish, who reports direct to a main board director, sees the problem as discovering how ICI can make money out of electronics rather than how it can sell chemicals to the electronics industry.

He is looking for much more added value than ICI's traditional business in bulk chemicals provides and he expects to collaborate, mainly with overseas firms, in joint ventures. Already he is talking to some "household names" among the Japanese electronics giants.

"I guess basically we are selling science instead of products," he says. How does Mellish rate his chances as an entrepreneur in a rooted bulk chemical supplier? He has the public support of ICI chairman John Harvey-Jones and research director Charles Reece. "That's a hell of a help."

But even that brave decision

has been thrust into the backwash by an election storm that has swept the village.

Nothing to do with the General Election, of course—Chippingdon can take such gonging in their stride.

In the much more important recent parish council election the village's popular—and only—butterer, Bill Robinson collected a paltry 76 votes. By the time more than 100 locals had conspired with him his disappointment at his sudden loss of support turned to suspicion.

He carried out a count and found that more than 200 of his customers had voted for him. Confronted by an angry Robinson, the Ribblesdale Valley village's popular—and only—butterer, Bill Robinson collected a paltry 76 votes. By the time more than 100 locals had conspired with him his disappointment at his sudden loss of support turned to suspicion.

Thoroughly aroused by all this high political activity the villagers led by Terry Till, parish council chairman and local coal merchant, are demanding another election—the day of the General Election.

Kiddell joined Sotheby's in 1921 and until his death in 1980 had an unrivalled opportunity to sort out the fakes from the fakes. Among the 60 items on show are a tureen in the form of a rabbit chewing a leaf pretending to be Chelsea, circa



1785, but really Samson, late 19th century.

The Great Exhibition of 1851 rekindled interest in 18th century porcelain and the Samson factory in Paris set to work making accurate copies. Samson is now collecting—the tureen is worth £300. But then it had been Chelsea it would be valued at nearer £10,000.

There are fears that the professionals on the Channel Island of Jersey—the lawyers and accountants who act as nominees for offshore companies registered on the island—may have to re-think their roles.

For a proposed change in the local law would mean they would have to take the blame for the doings of their masters—the real owners of the companies which the local men "front" on the island.

When Jersey's first Trust Law was being drafted the original

idea of having officially approved and supervised trustees was dropped in favour of making the directors of a trust company personally liable for any breach of trust.

The definition of a director has been, until now, very loosely drawn to include any shareholder controlling more than one-third of the voting power.

But a new Trust Bill to come before the Jersey Parliament today would make the island's professional men answerable for the behaviour of their principals—many of whom have never been near the island.

Faced with that prospect the idea of being a nominee for a company operating off the island is suddenly looking less than attractive to the St Helier business community.

Mixed bag
 A Northern Ireland Unionist Assembly member had just become a father for the first time when he met one of his constituents in Belfast—well, so the Irish Times tells.

Said the politician, "I mustn't have any more."

"Why?" asked the constituent.

"Because every second child born in Northern Ireland is a Catholic," replied the Assembly member.

"Begod, you're right," replied the constituent. "I didn't think of that."

A colleague overheard the exchange.

"You shouldn't have a third either," he whispered to the Unionist.

"Why not?"

"Because every third child born in the world is Chinese," replied his friend.

Offshore risks
 There are fears that the professionals on the Channel Island of Jersey—the lawyers and accountants who act as nominees for offshore companies registered on the island—may have to re-think their roles.

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Observer

FOREIGN AFFAIRS: DISARMAMENT

Of histrionics and delusions

By Ian Davidson

THE confused babble in the British Labour Party over its supposedly non-nuclear defence policy has done more to divert and entertain the nation than anything contributed so far in the election campaign by the Conservatives. For the first fortnight its spokesmen have been trying to reconcile one manifesto commitment — to "carry through" a non-nuclear policy within the next Parliament — with another, rather different, commitment — to place the British Polaris nuclear submarines on the negotiating table in Geneva.

By the end of last week, after much wobble, the emphasis seemed to have shifted somewhat from abandonment to negotiation, though given the tension between the unilateralists and the multilateralists, this shift may prove impermanent.

Labour's standing in the opinion polls, as well as other outside surveys, suggest that the party's unilateralism is not a vote-winning ticket, and that Mrs Thatcher's resolute refusal to have anything to do with "one-sided disarmament" — as she has no real choice: the multilateralists in all parties are less than frank about the potential con-

France, there is no way that the European nuclear powers can, on their own, play an effective role in the bargaining; if they have a contribution to make, it can only be contingent on progress between the big players. The Russians, of course, would love to include the British and French systems in the "Nato" totals, and their recent propaganda plays have been based on the notion that their intermediate-range SS20 Euro-missiles should be held down to a level equivalent to the British and French totals. But the point of this offer is not to make (illusory) concessions to Britain and France, but to secure an enormous concession from the Americans.

For if it were accepted, it would allow the Russians to keep more SS20s than they had when the Geneva Euro-missile talks began 18 months ago, and it would require the Americans to sign away their right to deploy any cruise and Pershing II missiles in western Europe. Mrs Thatcher's toughness in refusing to allow Polaris to be counted in the Euro-missile talks in Geneva is pure theatre because she has no real choice: Mr Foot's real problem in placing Polaris "on the table" would not be with the Russians, but with the Americans, and with the other European governments which back the 1979 Nato decision to seek an East-West agreement on land-based Euro-missiles.

For the moment, these talks seem totally deadlocked, and there is little prospect of movement for many months to come. The Soviet Union has made a number of histrionic gestures, and the U.S. has been persuaded by its European partners to ease away from its starting position, which would have required both super-powers to forswear any deployment of long-range Euro-missiles. But at the negotiating table there seems to be no rapprochement on the principle of U.S.-Soviet equality in this category of weapons systems. No doubt the Russians will continue to drag their heels in the hope that European governments will lose their nerve, and in the event refuse to accept the new American missiles.

The unilateralism in the Labour manifesto may be more a matter of idealistic conviction



Gerald Ford and Leonid Brezhnev at the 1974 arms limitation talks in Vladivostok

than of loss of nerve. But when Mr Helmut Schmidt, the former West German Chancellor, publicly advises his doubts whether the Americans are negotiating seriously in Geneva, it can only suggest that resistance to the new missiles is likely to get stronger in Germany in the months leading up to deployment at the end of the year, and that the U.S. negotiating position may become even more difficult.

On the other hand, there may be less reason for pessimism over the parallel U.S.-Soviet talks in Geneva on intercontinental nuclear weapons. First, because the Americans already have parity in these strategic weapons; they are negotiating from a position of weakness on the Euro-missiles: the Russian SS 20s are already deployed, whereas the cruise and Pershing II missiles are not. Second, because the Americans can take their own decisions on future strategic weapons, without having to depend on the uncertain determination of their European allies. Last week's

vote in Congress, giving the go-ahead to the new MX land-based intercontinental ballistic missile, is a case in point, even if it comes after years of dithering. Moreover, MX is only part of President Reagan's vast rearmament programme; if the Russians regret the non-ratification of the second Salt treaty (and they do), they have even more reason to want to negotiate limits on Reagan's rearmament before it gets out of hand.

And third, because, though there has been no perceptible progress so far, at least the two sides agree on one point of principle: they are both proposing a reduction in their strategic arsenals. The U.S. has suggested a 50 per cent cut in total ballistic missiles to about 850 on each side, and a one-third cut in the number of ballistic missile warheads to about 5,000, of which no more than half would be on land-based missiles. The Russians, less ambitiously, have tabled a proposal to reduce total launchers (missiles and aircraft) to 1,800 on each side,

compared with around 2,000 now for the U.S. and 2,400 for the Soviet Union.

What makes this a particularly interesting phase in the Strategic Arms Reduction Talks (Start) is that the Americans are currently in the throes of revising their opening offer. The recent Scowcroft Report on America's strategic forces argued strongly that the current practice of building missiles with many warheads is destabilising, because it means that such land-based rockets present tempting and undefendable targets for the rockets of the other side. It recommended that in future the U.S. should shift from multi-warhead missiles to a larger number of small single-warhead missiles, and that in the Start talks the U.S. should reassess its proposal for a reduction in numbers of missiles.

For if U.S. land-based ICBMs are vulnerable to attack by Soviet ICBMs, then a proposal to cut missile numbers proportionally more (by a half) than warhead numbers (a third), would make these land-based ICBMs even more vulnerable, and would thus aggravate the problem of instability.

The logic of the Scowcroft Report ought to lead the U.S. to abandon any ceiling for missiles, and concentrate entirely on cuts in the number of warheads. But since the Russian proposal is based primarily on the counting of launchers, and remains vague on the question of counting warheads, it seems probable that the U.S. will simply increase its proposed missile ceiling, from 850 to 1,200-1,350. If the Russians can then be persuaded to include a warhead ceiling, there could be the ingredients for an eventual compromise.

Obviously, a significant cut in strategic weapons could not be achieved overnight. It would have to be phased over several years, and a tight sub-ceiling of land-based warheads would require the Russians to restructure their forces considerably, since three-quarters of their warheads are currently on land.

Such an agreement assumes that the political leaders in Washington and Moscow could overcome the professional resistance of their respective military bureaucracies. But that

resistance will be more difficult to overcome if Soviet reductions are scheduled to coincide with very substantial increases in the numbers of warheads deployed by Britain and France.

At present, British and French missiles muster around 200 warheads. After Britain has acquired Trident to replace Polaris, and after France has launched its sixth and seventh submarines and fitted them with multi-headed missiles, the Anglo-French total could easily top 1,000 warheads. Not merely would this represent a significant proportion of the warhead ceiling proposed by the U.S. (5,000), but the accuracy of Trident would give Britain the ability to knock out Soviet silos which it has never claimed to need.

Mr Francis Pym, the Foreign Secretary, has brushed this problem aside by depicting it as a remote contingency which can be consigned to a quiet and distant future. Things may not be as easy as that. The Salt II treaty did not suddenly emerge from the signing ceremony on June 18, 1979; it was the result of five years' negotiations on the basis of fairly precise principles agreed at Vladivostok in 1974.

The Anglo-French warhead total could top 1,000

between Gerald Ford and Leonid Brezhnev.

Some diplomats are already suggesting that circumstances may be propitious for another Vladivostok-type encounter. President Reagan only got the MX through Congress by promising earnest arms-control efforts. If he intends to stand again, he may want a summit meeting within the next year, to deliver on that promise. But if there were to be a Vladivostok-type meeting, it would undoubtedly have to take in the prospective proliferation of British and French systems.

In short, Britain is neither as free to enter nuclear weapons negotiations as Mr Foot asserts, nor as free to stay out of them as Mr Thatcher pretends. And the moment of decision could be quite soon.

Lombard

The Maoists of Lord North Street

By Anthony Harris

IT WAS Mao Tse Tung who proclaimed the doctrine of perpetual revolution, and a far lot of good it did him. Our home grown revolutionaries of the right, at the Institute of Economic Affairs, Lord North Street, seem to be getting into the same trouble. The question to which none of them have found a satisfactory answer is — if you are a temperamental revolutionary, what do you do after you have won?

These thoughts are provoked by the latest book from the IEA, *Agenda for Social Democracy*. The attempt to hijack the SDP in the course of market economics is not just a fairly witty joke; the IEA as it is made clear by Prof Charles Rowley, in his essay in this collection, is worried because politicians tend to buy votes by selling principles. The Alliance, which has no sponsoring pressure groups, ought to be able to preserve doctrinal purity.

Apart from the central joke though, this is a desperately thin collection although there are one or two really useful points. For example, Stephen Littlechild points out that competition policy has yet to tackle the profession; and Ljubo Sirc usefully reminds us that although the co-operative ideal appeals to everybody's emotions, the experience of countries ranging from Yugoslavia to the U.S. is that they don't work very well. An effective economy does seem to need an entrepreneur.

However, this is hardly the stuff of future revelations and the bulk of the book is taken up with restatement of old IEA positions which look increasingly Bourgeois — you know, the people learnt nothing and forgot nothing. Lord Harris of High Cross, in a masterly survey of all the IEA achieved in the past, simply claims that monetarism and floating exchange rates were preached by the IEA before they were practised by governments. Lord Harris of High Cross, in a masterly survey of all the IEA achieved in the past, simply claims that monetarism and floating exchange rates were preached by the IEA before they were practised by governments.

In what purports to be a study of the labour market, simply asserts that monetarism would solve most macro-economic problems if we would only follow his advice, and control the monetary base and leave it at that. I seem to remember that

at other times Mr Wood has been a passionate defender of controlling Sterling M3 so perhaps IEA authors do learn from experience. They don't admit it, though.

This is all pretty sad. Any-one who has been commenting on economic affairs for more than five years can remember the time when the IEA was the spearhead of the right-wing counter-revolution.

So what should the IEA do? The obvious suggestion is to shut up shop with honour. This group really has loosened up our thinking, perhaps they do not belong in the establishment. This seems to be far too defeatist. As the Littlechild essay reminds us, there is a great deal of useful work to be done on the old lines. The trouble is it means a lot of hard work. If, for example, the IEA wants to lead a successful assault on the professions, it means redoing the work botched by people like the Benson Royal Commission, and giving a radical study of the harm done by restrictive practices of solicitors, barristers, architects, doctors and the rest.

It also seems to me it is high time for the IEA to do some of the confessional work which the National Institute of Economic and Social Research does so well, and look back at its prescription saying frankly what worked, what didn't and why. This might not only be a useful cure for self-satisfaction but direct the thoughts of the market economists to subjects they seem to overlook.

For example, the troubles that have followed the floating of exchange rates and the attempt to manage the money supply might be found in the workings of the banking system. Is it possible that the competitive source which is so good for the industrial goose, gives a sour taste to the financial gander? This is only one of a whole list of topics which would surely be worth the analytical zeal of the fearless thinkers of Lord North Street. But no more, please, of yesterday's revolutions. The revolutionaries now run the country, and like most revolutionaries, they have yet to learn to make a decent job of it.

Letters to the Editor

Enfranchisement of leasehold flats

From Mr P. Williams.

Sir,—At a time when the Conservative Party is preaching the virtues of home ownership for all, and encouraging local councils to sell homes at a substantial discount to tenants, why is it so silent in regard to the matter of leasees of flats belonging to private landlords enjoying the same rights?

I would also be interested to know why no move has been made to date to extend the provisions of the Leasehold Enfranchisement Act to include leasehold flats held at a ground rent of less than two-thirds of the rateable value.

It was obviously considered expedient to raise the rateable value limit in order that more houses could qualify under the provisions of the Leasehold Enfranchisement Act which fortuitously allow a number of Mr's occupying houses in Westminster to either extend their lease or purchase the freehold. It is obviously not practical to provide that the leasees of flats should be allowed to purchase their freeholds for a number

of reasons but they should enjoy the right in common with the leasees of houses to extend their leases up to, say, 125 years.

I also think that it is high time that the flat dweller was assessed for rating purposes on much fairer and equitable basis. In that if you compare the assessment of the average house with a flat of a similar size, you will find that the rateable value of the flat is far higher than the house despite the assessment by the amenities enjoyed by the house owner are infinitely greater. Why not, therefore, assess on the basis of capital value, which is common in New York, and each time the property changes hands the assessment is either increased or decreased according to the price obtained? This would save time consuming and expensive revaluation for rating purposes.

The present system of rating is archaic and should be changed, in my opinion. I think a very considerable number of potential Conservative voters in

the inner London boroughs particularly are impatient to see some evidence of the Government implementing the measures that I have outlined not purely as a vote-catching exercise but as a piece of social justice.

I am well acquainted with the arguments against extending the Leasehold Enfranchisement Act to include flats and none of the arguments I have heard really hold water. I think that if the provisions of the Act were extended to include flats, it would stop numbers of speculators who have specialised in buying in a number of blocks for break-up which is not one of the most attractive faces of capitalism.

I believe that Sir Brandon Rhys-Williams introduced a Bill to extend the Leasehold Enfranchisement Act to flats. I am concerned to see that there is no mention of such plans in the Tory Party manifesto. I think it may have caused to regret this seeming indifference as a result.

P. J. Williams,
6, Stratton Street, W1.

Southern African achievements

From the High Commissioner for the Republic of Botswana and Chairman of the Southern African Development Co-ordination Conference

Sir,—Your leader (May 26) was complimentary about the aims of the Southern African Development Co-ordination Conference (SADCC), but unjustifiably gloomy about its achievements.

You allege failure to attract private investment in spite of a long list of potential projects. The facts are that these projects were presented only four months ago, at the SADCC conference with the international community held in London. Negotiations are currently in progress with private commercial investors from Japan, Finland, Germany, Brazil, India, Canada, Australia, Italy, Portugal and Britain on over 70 separate industrial projects.

Meanwhile considerable progress has been made on older established programmes, and especially on transport and communications, where the first presentations to the international community were made in November 1980. Since then 44 projects have been started on the ground, and five of these completed, including important new telecommunications links. For an entirely new international organisation, working amidst the kind of regional pressures your leader describes, surely you are wrong to describe progress as "extremely slow"?

S. A. Mphahane,
162, Buckingham Palace Road, SW1.

An open-ended invitation

From Mr J. Harper

Sir,—I had hoped that Sir Lawrence Airey's generous invitation to write to him with relevant details of staff of his who cannot tell margarine from butter was a standing offer. I trust it has not closed after two months, like those breakfast cereal deals. If not, perhaps it is a little early for one who has led with his chin to publicly congratulate himself (May 20) with such hauteur.

I will be drawing the attention of delegates at the third annual UK Tax Congress to his letter, as a major taxation development of 1983, when I again jointly present the review of the past year.

Jack Harper,
21, Eltham Park Gardens, SE9.

Negotiations at Birds Eye

From the General Secretary, Association of Professional, Executive, Clerical and Computer Staff

Sir,—Your report of May 24 missed out three essential points in discussing the recent ballot at Birds Eye Walls.

APEX has enjoyed excellent industrial relations with Walls Ice Cream for many years. When unionised sales staff from Walls were merged with non-unionised Birds Eye sales staff in a company reorganisation our members comprised 38 per cent of the combined force.

Management insisted on a ballot as to whether we should continue to negotiate for our members. In spite of unifying the sales staff they unilaterally imposed a salary increase of 4 per cent on the Walls staff and 5 per cent on the Birds staff. Talk about "negotiation through consultation" with unorganised staff is meaningless in this context.

In spite of this clear message 43 per cent of the staff still voted to be represented by APEX. Many Birds Eye staff would vote for representation by APEX if they believed that management would not discriminate against union members. Let me assure them that this bribery and discriminatory treatment has been challenged

Restrictive practices

From the Managing Director, Portland Engineering and Marine Sales

Sir,—The Observer who has the opportunity to travel overseas to the new Pacific manufacturing industries which are now very successfully challenging our own productions finds himself in a different world.

There the restrictive practices which are a feature of British production do not exist and the flexibility of labour within the factory permits rapid change with ever increasing efficiency. Unlike the British procedures which can take many months of negotiations to proceed to a necessary change in methods. This unhappy state of affairs in our factories can no longer be allowed to continue.

In the past the unions were required to deal with a situation which is no longer relevant. Markets are now worldwide and the size of the

market share will be determined by the efficiency of the producer. Additionally much work is now carried out supported by taxpayers subsidies or directly for government to be paid for our taxes and it seems grossly unfair that additional taxes have to be raised to pay for restrictive practices by the workers — but that is how it is at present.

It would be too much to expect the unions to abandon these restrictive practices and government must take the lead, initially by inserting a clause in every contract for goods and services that restrictive practices have been eliminated within the premises of the supplier. Without this clause the tender would be thrown out! Give this some time to work its way through the system and we could perhaps look to a reduction in our costs for the government of this island.

Time is not on our side and without the present support of North Sea oil we would be in something of a mess. When the oil has disappeared we shall need a strong manufacturing base to support the population of these islands and every effort to provide for these days should start now.

W. M. Williamson,
194a Havant Road, Drayton,
Portsmouth, Hants.

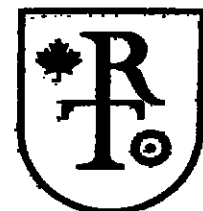
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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Tuesday May 31 1983

When that package must get there... (UK or overseas)
SECURICOR
01-844 0404

AIBD threatens to take a more interventionist line

BY MARY ANNE SIEGHART IN LONDON

THE EUROBOND market has always prided itself on its freedom from regulation. It is not like a domestic capital market where borrowers often have to queue to issue bonds and the central bank runs the show. In the Eurobond market, however, come and go as they please and the main constraint is what the market does or does not want to buy.

There are a few other restrictions. The Association of International Bond Dealers (AIBD), to which most of the houses involved in the market belong, has its own code of practice, consisting of rules and recommendations. But as M. Damien Wigry, its chairman, says: "The AIBD is an entirely voluntary, self-regulating organisation. Any member can free himself from the regulating process by leaving the organisation."

The AIBD takes the line that most market difficulties can be solved by the market itself. But at this year's conference and annual general meeting, held in The Hague last week, the association threatened to take a much more interventionist line.

The issue at stake was the role of commission brokers, such as P. Graham, Mahon Nugent International, and Guy Butler.

The big market makers - which use their own capital to make two-way prices in the secondary market and hold inventories of bonds - originally invited the brokers into the market with the idea that the brokers would act as intermediaries between different market makers. In this way the market makers could find out from the broker which were the highest bid or the lowest offer prices without having to give away their own prices to rival houses.

But many people suspect the brokers are dealing not only with market makers, but also with end investors. The market makers feel their client bases are being eroded and

that the brokers are making money out of them without putting any capital at risk. What is more, if a market maker sells through a broker he has to pay commission.

M. Wigry summed up the AIBD line at The Hague: "The brokers are playing a very useful role when they deal between market makers. But they're playing a destructive role if they use the prices of the market maker to deal with a client of that market maker."

"Then the incentive for the market maker to put capital at risk is disappearing. We could end up with fewer and fewer market makers and that would be detrimental to the market as a whole. We want to ensure the best liquidity possible in the secondary market, and that is what the market makers are doing by putting capital at risk."

The AIBD's proposed solution was set out in a new rule presented to the annual general meeting: "Commission brokers being members of the AIBD shall confine their service to recognised market makers. For the purpose of this rule, recognised market makers means any firm mentioned in the list of market makers in the AIBD weekly Eurobond guide. Commission brokers can be asked by the board to submit from time to time to a client audit."

It was this last sentence which caused the most uproar. The AIBD looking through a member's books? It was unheard of.

Tension was high when the votes were cast. First a unanimous vote supported the counter-proposal that the audit provision be removed. Then a show of hands on the amended proposal was inconclusive. A ballot was taken and the result announced: 224 in favour, 106 against, 11 abstentions. But wait a minute - there were meant to be 377 voters present. So the Yes votes were not enough to form the necessary two-thirds majority to amend the rule book.

INTERNATIONAL CREDITS

Struggling with Brazil's crisis

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

LAST WEEK was another week of suspense for the Eurocredit market as it struggled to come to terms with the deepening liquidity crisis of its largest customer, Brazil.

With about \$800m in foreign payment arrears Brazil faces a delay in disbursement of the \$411m tranche of International Monetary Fund (IMF) money originally due to be released today. Simultaneously commercial bank creditors are withholding payment of \$633m, due to be made available from the \$4.4bn medium-term loan facility granted to Brazil earlier this year.

Yet this shortfall need not in itself make the country's cash crisis worse. The money was almost entirely earmarked for repayment of earlier bridging loans granted by the Bank for International Settlements and leading commercial banks.

So long as these lenders also agree to a delay in repayment, Brazil need not be immediately worse off as a result of its failure to satisfy targets set out in its IMF programme. As this realisation has grown, fears in the marketplace that the country might declare a full-scale moratorium on its \$84bn

foreign debt have begun at least temporarily to abate.

This is not to say that the situation is no longer acute. Brazil's existing foreign payments arrears are still lower than those accumulated by Argentina at their peak, yet their impact is potentially more serious since they could eventually impair Brazil's ability to trade internationally. This could prevent it achieving the \$6bn trade surplus on which its whole debt rescue effort hinges.

Dogged pursuit of extra money through the interbank market continued last week to little avail. Interbank lines to Brazilian banks, which are supposed to reach a minimum of \$7.5bn under the programme, are still languishing around the \$6bn mark, and there is little sign of any willingness in the banking community to make extra money available through alternative channels.

The market is waiting for a conclusion to Brazil's negotiations with the International Monetary Fund. An IMF mission is due to visit Brazil soon to look at the books more closely.

Brazil, for its part, has already undertaken to announce measures

to reduce its fiscal deficit, particularly through the elimination of subsidies.

While this process continues, few bankers foresee much change in the pattern of late payments and arrears, which Brazil believes should decline naturally from July as the effect of its increased trade surplus is felt in its cash flow.

The real test for the banking system would come, however, if the IMF's review of Brazil's economy did throw up a need for much more external financing. In view of the failure of Brazil's programme to date, many bankers find it hard to see how smaller banks could be persuaded to put up much more money.

Unlike Mexico, Brazil underestimated its needs when first drawing up its rescue package. Yet Mexico, even though it is now in good standing with the IMF, has still not completed arrangements to reschedule \$19.7bn of public sector debt falling due this year and next.

Intensive work on this was proceeding last week in New York, and this week similar efforts will be made for Argentina as mid-year approaches and bankers are forced to realise that no single Latin Ameri-

can country has completed all the arrangements needed to put its debt on an orderly footing for 1983.

Even when Mexico's public sector debt rescheduling is settled the private sector debt problems will remain. Although Mexico is not now expected to need fresh loans in 1983, bankers expect that the Bank of Mexico will have to refinance about \$500m in private sector interest arrears in the autumn.

Meanwhile more countries are entering the refinancing arena. Panama has announced that it will need about \$300m in the next two years and is forming an advisory group of creditor banks to help arrange the finance.

In Europe two new credits were announced last week. Danish Export Finance has mandated the Bank of America International to raise \$150m over seven years.

Italy's Istituto Mobiliare Italiano has launched a \$100m credit designed to finance Italian exports. Part of the deal, amounting to \$77.3m, will be broadly syndicated at a margin of 1/2 per cent over London interbank offered rate for three years, rising to 3/4 per cent for the remaining 22.7m.

INTERNATIONAL BONDS

Little sign of a receptive market

BY OUR EUROMARKETS CORRESPONDENT

IT MIGHT just have been because the bulk of the dealing community was away in The Hague last week, but Eurobond dealers still at their desks apparently decided that the Province of Ontario was a better risk than the U.S. Government.

Its 10 1/2 per cent bonds due 1990 were trading on Friday afternoon at a yield of 10.78 per cent, below the 10.86 per cent available on U.S. Government seven-year paper. And this was not a unique situation. By comparison with the U.S. market, yields on Eurobonds are looking distinctly unattractive almost across the board.

Yet this is more a feature of a currency-driven market than a top-down assessment of credit ratings. In quiet trading Eurobond prices fell by about 1/4 points last week as six-months Eurodollar deposits climbed by 1/4 point to 9 1/4. But the fall was restrained by the strength of the dollar in exchange markets, which gives many European investors little incentive to sell.

As a result price falls in the Eurobond market have lagged behind those in New York, a situation which normally tempts North

American borrowers to switch their attention to the Eurobond market.

At the moment, however, there is little sign of the Eurobond market being receptive to new paper. Many houses still have inventory on their books, built up earlier this month when interest rates appeared to be headed lower. There were only three new issues in the dollar market last week and none was exactly a star performer.

Security Pacific's \$100m, 10 1/2 per cent issue was languishing on Friday at a discount of about two points on its par issue price. It was regarded as too lightly priced for an issue by a commercial bank.

By contrast the issue with warrants for I.C. Industries was increased to \$100m from \$75m and traded on Friday at around par. Although the issue was helped by an increase in the borrower's share price during the launch period - the warrants allow purchase of equity and/or more fixed rate paper - some dealers felt that the structure was too complicated. Stripped of the warrants, the bonds were quoted at 84, which gives an effective yield of more than 12 per cent.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead Manager	Offer yield %	
U.S. DOLLARS								Sumitomo Forestry **	40	1988	-	-	100	CS	3.750	
Amador St.	15	1998	15	7 1/2	100	Morgan Grenfell, Shewson/Ames	7.500	Kansai Elec. Power **	100	1988	-	5 1/2	100	UBS	5.875	
Sandoz St.	50.25	1995	12 1/2	5	100	UBS Secs.	5.000	Yamato Transport **	50	1988	-	-	100	UBS	3.750	
IC Industries 1/2	100	1991	8	8 1/2	100	Orion Royal, Paribas, UBS Secs., Merrill Lynch	8.875	Santitas Corp. **	50	1988	-	-	100	Banca della Svizzera Italiana	3.750	
Security Pacific †	100	1988	5	10 1/2	100	SG Warburg, Morgan Gny., SBCI	10.500	Nat. Australia Bank **	100	1989	-	5 1/2	99 3/4	CS	5.025	
Orion Leasing †	50	1998	15	5 1/4	100	Daiva Europa, Paribas, Baring Bros.	-	Mitsubishi Plastics Inds. **	35	1988	-	-	100	SBC	3.750	
D-MARKS								STERLING								
SATIS †	100	1990	7	8 1/4	99 1/4	BHF-Bank	8.289	CEPRM †††	35	1995	11.4	11 1/4	100	HN Samuel	11.250	
World Bank †	250	1990	7	7 1/2	99 1/2	Deutsche Bank	7.955	Isoland †	15	2016	33	14 1/2	101 1/4	100	Handelsbank	14.319
SWISS FRANCES								Edis	50	1988	5	11 1/2	100	Soc. Gen. de Bque., BBL, Kreditbank	11.375	
Wolfs **	40	1988	-	3 1/2	100	SBC	3.625	Bank Koor †	50	1988	-	-	100	Soc. Gen. de Bque., BBL, Kreditbank	11.375	
Japan Exim Bank †	100	1991	-	5 1/2	100	UBS	5.625	YEN								
Osaka Tokai Bank †	100	1993	-	6	100	CS	6.000	Daewoosland Elec. Bd. **	50	1993	9	8.5	-	Nikko Secs.	-	
								End **	50	1993	9	8.5	99.85	Bank of Tokyo	8.889	
								Wpge. Bk. of Denmark †	150	1993	9	8.2	99.75	Nikko Secs.	8.407	

* Not yet priced. † Final terms. ** Placement. † Floating rate note. ‡ Minimum. § Convertible. ¶ With warrants. †† Convertible into a dollar FRN. ‡ Increased by 5m. Note: Yields are calculated on AIBD basis.

All the securities having been sold, this announcement appears as a matter of record only.

NEW ISSUE

26th May, 1983

SECOM

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U.S. \$40,000,000
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Goldman Sachs International Corp.
Banque Nationale de Paris
Robert Fleming & Co. Limited
Pierson, Heldring & Pierson N.V.

Mitsubishi Bank (Europe) S.A.
Deutsche Bank Aktiengesellschaft
Kleinwort, Benson Limited
Swiss Bank Corporation International Limited

Abu Dhabi Investment Company	Al-Mal Group	Algemeene Bank Nederland N.V.	Amro International Limited
Arab African International Bank	Arab Banking Corporation (ABC)	Bank of America International Limited	Bank of America International Limited
Banque Bruxelles Lambert S.A.	Banque Française du Commerce Extérieur	Banque Indosuez	Banque Indosuez
Banque de Neufilz, Schlumberger, Mallet	Banque Paribas	Banque Worms	Barclays Bank Group
Baring Brothers & Co., Limited	Bayerische Vereinsbank Aktiengesellschaft	Berliner Handels- und Frankfurter Bank	James Capel & Co.
Chicorp Capital Markets Group	Commerzbank Aktiengesellschaft	County Bank Limited	Crédit Commercial de France
Credit Suisse First Boston Limited	Daiva Europe Limited	Deutsche Girozentrale - Deutsche Kommunalbank - Hambros Bank Limited	Crédit Lyonnais
Fuji International Finance	Gulf International Bank B.S.C.	Hill Samuel & Co. Limited	Hill Samuel & Co. Limited
Kreditbank S.A. Luxembourg	Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)	Lloyds Bank International Limited	Lloyds Bank International Limited
Kuwait International Investment Co. S.A.K.	Kuwait Investment Company (S.A.K.)	Morgan Grenfell & Co. Limited	Morgan Grenfell & Co. Limited
Merrill Lynch International & Co.	Mitsubishi Trust & Banking Corporation (Europe) S.A.	Nomura International Limited	Nomura International Limited
Morgan Guaranty Ltd	Morgan Stanley International	National Bank of Abu Dhabi	The National Commercial Bank (Saudi Arabia)
The Nikko Securities Co., (Europe) Ltd.	Nippon Credit International (HK) Ltd.	Nomura Investment Banking (Middle East) E.C.	Nomura Investment Banking (Middle East) E.C.
Osakaya International (Europe)	Salomon Brothers International	Samuel Montagu & Co. Limited	Samuel Montagu & Co. Limited
J. Henry Schroder Wagg & Co.	Société Générale	Société Générale de Banque S.A.	Sumitomo Finance International
Sumitomo Trust International Limited	The Tokyo-Mitsubishi Bank (Luxembourg) S.A.	Tokai Kyowa Morgan Grenfell Limited	Tokai Kyowa Morgan Grenfell Limited
The Tokyo Securities Co., Ltd.	Union Bank of Switzerland (Securities) Limited	Wako International (Europe) Limited	S. G. Warburg & Co. Ltd.
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New Issue

April 1983



Oesterreichische Kontrollbank Aktiengesellschaft

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Second-guessing the Fed again the number one sport

M1 IS SURGING (did someone say M1?), and with further signs that the U.S. economy is recovering. Second-guessing the Fed is once again the number one sport on Wall Street.

Memorial Day came yesterday at a crucial juncture. The holiday has provided the financial community with a further chance to take stock of the current sad state of the U.S. credit markets and what is actually known of Fed policy, as opposed to what is rumoured.

Bond prices fell again last week, although the pace of the decline seems to have slowed. After the Fed announced another big jump in M1 of \$2.1bn, bringing the increase over the past three weeks to \$13.7bn, the Treasury long bond fell to 90 1/2 to yield 10.86 per cent. The price decline on

While the minutes show that the FOMC made no real policy change at that meeting, they also show that the Committee set interim targets for M1, as well as M2 and M3 growth between March and June, and appeared to give M1 somewhat more attention than it has done since last October.

The FOMC emphasised, however, that it continued to consider M1 unreliable. Although M1 has grown substantially faster than either the 6 to 7 per cent interim target or the 4 to 6 per cent long-range target, M2 and M3 remain comfortably within both the short- and long-term targets, and should remain so despite an expected seasonal increase in May.

What really worries the market is whether the FOMC, at its meeting last week, or at some later date, might feel obliged to tighten to retain credibility. For the moment, most senior Wall Street economists believe this is unlikely.

The Fed gave no clues after the meeting, although the fact that the Fed funds rate did not depart from its recent trading range was taken as a good sign. Nevertheless, particular attention is likely to be paid in coming weeks to statistics.

Whatever the figures, credit market activity will probably remain depressed because of the prospect of a huge tranche of new Treasury offerings.

Last week Congress lifted the Treasury debt ceiling. The Treasury responded immediately with a snap auction of \$7.7bn of two-year notes which sold at an average yield of 9.92 per cent, up from 9.81 per cent at the April 20 auction.

The Treasury has to raise about \$20bn in fresh cash from note and bond auctions in June starting with the auction of \$5.7bn of five-year notes tomorrow.

None of this sounds too healthy for the corporate sector. Last week corporate prices followed Treasury issues down and new issue volume dropped to a mere \$540m.

Paul Taylor

Mitsubishi Motors suffers 41 per cent setback

BY YOKO SHIBATA IN TOKYO

MITSUBISHI MOTORS suffered a 41 per cent fall in pre-tax profits to ¥18,080bn (\$6m) in the year ended March, having been affected by a slump in sales of passenger cars and a recession in the truck market.

Unconsolidated net profits fell by 4 per cent to ¥12,67bn, on sales of ¥1,061bn, down by 1.9 per cent.

The number of vehicles sold decreased by 10 per cent to 1,032,000 units with sales of passenger cars down by 7 per cent to 548,000 units, and of trucks by 14 per cent to 485,000 units. In particular, passenger car sales to the domestic market dropped by 23 per cent.

In order to restructure its domestic sales network, the company, last October, bought inventories totaling 30,000 units worth ¥34.2bn from its sales subsidiary "Mitsubishi Motor Sales," which affected overall

passenger cars down by 7 per cent to 548,000 units, and of trucks by 14 per cent to 485,000 units. In particular, passenger car sales to the domestic market dropped by 23 per cent.

The company plans to introduce new passenger car models in the current year and the recession in the truck market is expected to bottom out. As a result, car sales are expected to reach 1,130,000 units, up by 9.4 per cent and pre-tax profits are forecast at ¥22bn, up by 32 per cent. Net profits should reach ¥15bn, up by 2.6 per cent and sales ¥1,170bn, up 10 per cent.

JAL loss smaller than expected

BY CHARLES SMITH, FAR EAST EDITOR IN TOKYO

JAPAN AIR LINES has reported a pre-tax loss of ¥27.1bn (\$113.5m) for the 12 months ending March 31 1983. The loss was slightly less than forecast but still represents a spectacular decline from the modest profits earned by the airline in 1981-82.

The loss reflects a deficit on operations of ¥8.3bn (down

from the previous year's ¥12.1bn profits) together with non-operating losses of ¥18.77bn. JAL cites high fuel costs (caused mainly by the deterioration of the yen exchange rate) and inflation in the two major factors involved in expenditure increases.

High non-operating losses were due to a 20 per cent jump in the airline's interest payments on aircraft purchases. The airline expects business to improve during the current year as a result of declining fuel prices and a general recovery in the world economy. Its preliminary forecast is for a ¥500m pre-tax profit for the year. Efforts will be made, however, to raise this figure by cutting costs further.

Japanese City banks ahead

TOKYO—Japan's major commercial banks posted higher net income in the year to March. All of the 13 City Banks, except for Daiwa Bank, released their results yesterday, and said net profits rose by between 4.1 per cent and 16.6 per cent.

Six of the 12 said operating revenues declined but only Sanwa Bank saw margins narrow, as net profits rose 4.3 per cent on operating revenues up by 4.4 per cent.

International operations remained a crucial contributor to revenues with all 12 banks posting double-figure increases, ranging from 10.7 per cent at Dai-ichi Kangyo Bank and 51.7 per cent at Dai-ichi Kangyo Bank.

Whereas first-half net profits had shown double-figure rises at all 13 banks except Kyowa Bank, full-year increases were more modest. Only Kyowa and Sanwa Bank saw more than 10 per cent.

Sumitomo Bank's net income rose 7.8 per cent to a record ¥59.99bn, the highest in the group but on operating revenues

up by 1.1 per cent to ¥1,618bn, the fourth-highest among the 12. Sumitomo ranked third in deposits, behind Dai-ichi Kangyo and Fuji Bank.

Saitama Bank's 16.6 per cent rise in net income was the sharpest of all 12 banks. Second place went to Kyowa Bank. Fuji Bank's 7.6 per cent rise in operating revenues was the highest among the group, as was Hokkaido Tokai Bank's 11.7 per cent rise in net income.

Bank of Tokyo saw net income ahead by 4.9 per cent to ¥24.33bn and operating revenues 3.3 per cent higher at ¥1,493bn.

Kyowa Bank's net income rose 11.4 per cent to ¥12.12bn on operating revenues fell 1.9 per cent to ¥1,057bn.

Saitama Bank's net income was 16.6 per cent higher at ¥12bn and its operating revenues rose 4.6 per cent to ¥13,090bn.

Hokkaido Tokai Bank lifted net income 8 per cent to ¥3.35bn and operating revenues by 3.9 per cent to ¥4,171.5bn. AP-DJ.

Downturn for Seiko Watch company

By Our Tokyo Staff

K. HATTORI, the worldwide marketing organisation for Seiko Watch products, suffered a 24.4 per cent setback in unconsolidated pre-tax profits to ¥1.8bn in the year to March. Sales fell by 4 per cent to ¥350bn but because of a sharp reduction in taxable profits, net profits jumped by 10.6 per cent to ¥1,970bn. Profits per share improved to ¥51.73, from ¥25.32.

Despite a 4.1 per cent increase in sales volume of watches, lower prices of inexpensive watches and higher proportion of such watches in total watch sales, dragged down the value of sales by 7 per cent. Clock sales also fell by 7 per cent but sales of system computers rose by 23 per cent.

The deterioration in pre-tax profits was blamed on increased financial deficits and the suspension of dividend income from overseas subsidiaries.

A rapid recovery in the watch and clock markets is not expected in the current year, but sales of jewellery and system computers are expected to increase sharply. Dividend income from overseas subsidiaries will also resume and pre-tax profits are expected to increase by 6.2 per cent to ¥2.5bn, on sales of ¥380bn, up 2.8 per cent.

Lower sales hit Minibea profit

By Our Tokyo Staff

MINIBEKA, the Japanese maker of precision bearings, saw unconsolidated pre-tax profits fall by 12.5 per cent to ¥25.5bn (\$10.7m) in the half year ended March. As a result of lower sales of machinery components and fasteners to the car industry, unconsolidated net profits were 25 per cent down at ¥15.58bn, on sales of ¥45.5bn, up 2.3 per cent. Profits per share fell to ¥10.73, from ¥12.71.

For the current full year, the company expects a steep recovery in its main line, bearings. Full year sales are expected to reach a record ¥100bn, up by 10 per cent. Operating profits are forecast at ¥7.5bn, up by 36.5 per cent, and net profits at ¥3.9bn, up by 12 per cent.

Australia sets up new inquiry into financial system

BY MICHAEL THOMPSON-NOEL IN SYDNEY

AUSTRALIA'S Labor Government is setting up a four-man task force to re-examine the country's financial system.

Mr Paul Keating, the federal Treasurer, said at the weekend that the new inquiry would consider whether the recommendations of the Campbell Committee, set up in 1981 to inquire into the Australian financial system, which reported in November 1981, could be used to accommodate Labor's social and economic aims.

But the Treasurer has advised foreign banks not to proceed further with applications for Australian banking licences. The previous Liberal-National Party government has said it was prepared to admit about 10 foreign banks, but Labor would prefer to see licences go to new domestic banks.

The Campbell Committee, chaired by the late Sir John Campbell, recommended entry of foreign banks, as well as sweeping deregulation of the financial system.

The new inquiry is expected to produce a report in about three to four months. Areas to be studied include recent developments in the financial system, the regulation of banking and of non-bank financial institutions, and the possible need for additional forms of domestic borrowing, including indexed government securities.

Labor has been keen to facilitate the flow of funds, at modest cost, to the housing, farming and small business sectors. Mr Keating said the new report would "provide the basis for a new approach to the management of the appropriate structure of the financial system."

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INTL. COMPANIES & FINANCE

Another record loss at Montedison

BY JAMES BUXTON IN ROME

MONTEDISON SPA, the holding company for the Italian chemicals group, has suffered a deficit for 1982 of a record L758bn (\$506m), compared with L698bn for 1981.

Consolidated turnover rose by only 6.9 per cent to L9,019bn, of which about 40 per cent was exported. The overall loss was L806bn, compared with L694bn in 1981.

The holding company loss includes a special provision of L117bn to cover the cost of future re-structuring and

closing down operations, including the recently announced move out of the nylon fibres sector. The company argues that taking into account both this and the fact that the 1982 result includes only L31bn worth of extraordinary income, against L270bn in 1981, the losses for the two years are of roughly the same order.

The poor state of the European chemicals market last year, which was particularly bad in Italy where the recession arrived later, is one of the main causes of the heavy losses.

Another was the continuing

high cost of servicing the company's debt, which amounted to 45 per cent of turnover at L4,102bn in 1982 and meant a debt servicing charge of L277bn. This, however, was lower than the 1981 figure of L967bn.

Montedison has had to cover its 1982 losses by recourse to reserves. But despite this the company's net financial assets at the end of 1982 rose slightly to L1,460bn, compared with L1,366bn at the end of 1981.

During 1983 the company will be less affected by the losses of the petrochemicals sector,

thanks to the transfer earlier this year of many of its plants to the Italian state energy company ENI.

It will also benefit from the recent agreement with the U.S. company Monsanto, which will help it rationalise its fibres operations, and with Hercules, the U.S. chemical concern, for joint marketing of polypropylene, in which Montedison is technically advanced.

There are plans to develop further the pharmaceutical sector, led by Farmitalia Carlo Erba, one of Montedison's few profitable subsidiaries.

Bastogi sharply reduces deficit

BY RUPERT CORNWELL IN ROME

BASTOGI, the troubled Italian financial company which last year came close to collapse, reported yesterday a sharp fall in 1982 losses to L17.4bn (\$11.6m) compared to the record deficit of L159bn achieved in 1981.

This apparently successful attempt to stem its losses follows agreement by Bastogi's creditor banks on a rescue package which significantly reduces its massive annual debt servicing charges.

A substantial portion of Bastogi's property assets were transferred to a new holding company called IGM, whose capital of L183m was mainly subscribed by the former's 49 creditor banks. Of Bastogi's outstanding short-term debt of L1,000m, half was repaid with the proceeds of the IGM deal, while the remainder has been

consolidated for five years.

At the same time, Bastogi is in the process of completing a capital increase of its own, from L23bn to L138bn, which will provide it with new working resources. Part is being put up by the banks, but around half is being provided by Bastogi's established shareholders.

Sig. Carlo Pesenti, whose Italian holding group controls some 20 per cent of Bastogi, is apparently subscribing his share. Fears had previously been voiced that financial difficulties might have prevented him from doing so.

● **INDUSTRIE BUTTONTI** Perugia (IBP), the parent company of a major Italian food processing and distribution group, has reported that net profit down to L1.01bn for 1982 from L2.21bn in 1981, AP-DJ reports from Milan.

The decline was largely due

to disappointing results in some food operations, where the company uses the Butoni trademark.

Group turnover rose by 18 per cent to L800bn, with domestic sales rising to L387bn from L331bn and foreign sales up 14 per cent to L422bn.

● **ERIDANIA** Zuccherifici Nazionali, a major Italian sugar refiner, has reported net profits for 1982 up to L11bn from L10.02bn.

Turnover rose to L659bn from L623bn, and the company gained a net L61.5bn of reserves through the revaluation of its fixed assets to take account of inflation.

The company, which is engaged in restructuring and renovating its operations at an estimated cost of L115bn between 1984 and 1986, will propose a one-for-10 rights issue at its AGM, scheduled for June 29.

Tasphereau resigns from Dome Mines

By Nicholas Hirst in Toronto

MR MALCOLM TASPHEREAU, one of the leading figures in the Canadian gold mining industry, has resigned as president and chief executive of the Toronto based Dome Mines following boardroom disagreements.

"It became apparent I did not have the full support on the board to continue as chief executive officer of this company," Mr Tasphereau said at a press conference yesterday.

Mr Tasphereau, who is 55, said there was no single issue which had resulted in his resignation, but he said that the debt problems of the company's associate Dome Petroleum, over the past couple of years had been a contributory factor. Dome Mines has a 26.7 per cent stake in Dome Petroleum, and Dome Petroleum in turn holds 38.8 per cent in Dome Mines. Dome Mines lost C\$74.6m (U.S.\$60.6m) in 1982 compared with a profit of C\$91.4m a year earlier. The share of Dome Petroleum's losses attributable to Dome Mines was C\$110.4m, compared with a profit of C\$48.3m.

Mr Tasphereau was one of Canada's highest paid executives, earning C\$22,500 in 1982. He has been president of Dome Mines since 1978 and has been with the group for 30 years. In its statement on Friday the company acknowledged his "significant contribution" to Dome Mines, and the gold mining industry.

LADBROKE INDEX
707-712 (+5)
based on FT Index
Tel: 01-493 5261

AMEV in 1982

A further increase in profits

- Total revenue for the year increased by 11.4% to Dfl 4,270m. All three areas in which the group operates—life assurance, non-life insurance and other activities—made a satisfactory contribution to the rise in revenue.
- Net profit was Dfl 178.4m compared with Dfl 163.6m in 1981. The figure before tax and provisions was Dfl 241.0m (1981: Dfl 229.6m).
- Earnings per ordinary share rose from Dfl 16.38 in 1981 to Dfl 17.43.
- A final dividend of Dfl 5.20 has been declared, making a total for the year of Dfl 7.80.
- In the absence of unforeseen circumstances, a slight increase in profit is expected for 1983.

Consolidated Profit and Loss Account (thousands of guilders)

	1982	1981
Life assurance	152,084	140,885
Non-life insurance	73,975	73,233
Other activities	14,948	15,508
Profit before taxation and provisions	241,007	229,626
Net profit	178,429	163,605

Five Year Record (thousands of guilders)

	Sums Assured	Assets	Profits
1982	83,317,000	14,935,876	178,429
1981	75,807,000	13,596,749	163,605
1980	67,541,000	12,310,192	138,553
1979	53,727,000	9,768,137	115,128
1978	46,587,000	8,237,832	95,401

Assets have increased over the 5-year period at a compound rate of 16%, and profits after tax at a compound rate of 17%.

(£1 = approx 4.45 guilders)

AMEV Worldwide

AMEV is an insurance and financial group of international importance and is the second largest insurance group in the Netherlands. Its assets exceed Dfl 14.9bn.

AMEV comprises 38 companies in ten countries situated in three continents. During the year the group acquired the share capital of Friesch-Hollandsche Hypotheekbank, a Dutch mortgage bank, and a 25% holding in the insurance group Bilbao, one of the larger insurance companies in Spain.

AMEV in the UK

AMEV's operations in the UK are conducted by two closely integrated companies, Gresham Life Assurance Society and AMEV Life Assurance. Gresham is well established in traditional life assurance and pensions business while AMEV Life specialises in the unit-linked field.

Copies of the 1982 Annual Report can be obtained from AMEV Limited at: 2-6 Prince of Wales Road, Bournemouth BH4 9HD. Telephone: 0202 760297

N.V. AMEV
Utrecht
The Netherlands



State aid for Chapelle d'Arblay

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government is to inject FFfr 1.2bn (\$159m) into Chapelle d'Arblay, the large French paper manufacturer, to help preserve the French newspaper industry.

But it is also demanding that the company, which accounts for 90 per cent of French newspaper production, close one of its two plants at Rouen and to make redundant three quarters of its 2,100 workforce.

The decision, announced to the trades unions over the weekend, comes 27 months after the company filed for bankruptcy. Since then a number of rescue plans have been put forward

including a joint operation with Scandinavian paper producers and a link-up with Beghin-Say, the French paper and sugar manufacturer.

The decision reflects the Government's longstanding commitment to retain a French newspaper industry drawing on French wood and scrap paper as feedstock. But it shows also its willingness to brave the hostility of the unions.

Under the plan, the government is to invest FFfr 1.2bn to provide a new newspaper plant at Saint-Etienne-du-Rouvray near Rouen with a capacity of 150,000 tonnes a year. In 1981

Chapelle d'Arblay produced 235,000 tonnes of newspaper. The new plant will be operative from 1988 and capacity will eventually be increased to 260,000 tonnes a year.

Management for the operation is to pass to the leading Dutch paper concern, Parreno, which is expected to take a 34 per cent stake in a new controlling company yet to be formed.

It is not yet clear what the shareholdings of the Paribas bank and the state investment institution, IDI, which currently hold a 50 per cent stake each in Chapelle d'Arblay, will be in the new company.

MINORCO

Minerals and Resources Corporation Limited

(Incorporated with limited liability in Bermuda)

("the Corporation")

Notice to holders of the
9¼ per cent. Subordinated Bonds 1997
of the Corporation

in the denomination of U.S.\$1,000 each
("the Bonds")

formerly convertible into Ordinary Shares of
1.40 Bermudian dollars each of the Corporation
("Ordinary Shares")

NOTICE IS HEREBY GIVEN to the holders of the 439 Bonds which had not been surrendered for either conversion or redemption prior to 27th May, 1983 ("the Unpresented Bonds") that:-

- (1) in accordance with the Conditions endorsed on the Bonds, the trust deed dated 1st February, 1982 ("the Trust Deed") between the Corporation and The Law Debenture Corporation p.l.c. as trustee constituting the Bonds and the Notice to the holders of the Bonds published in the Financial Times on 26th April, 1983, the right to convert the Bonds into Ordinary Shares expired on 18th May, 1983 and the redemption date in respect thereof was 26th May, 1983;
- (2) on 27th May, 1983, pursuant to Condition 3(D) and the Trust Deed, The Law Debenture Corporation p.l.c. as trustee (a) exercised its discretion as therein provided and elected to apply the redemption moneys and accrued interest with regard to all Unpresented Bonds in subscribing for such number of Ordinary Shares as would have been issued on conversion of such Bonds on 18th May, 1983 (namely 53,799 Ordinary Shares) and (b) sold the said Ordinary Shares for settlement on 13th June, 1983;
- (3) the net proceeds of such sale (which will amount to U.S.\$742,937.78) shall as provided in the Trust Deed be treated for all purposes as the full amount due by the Corporation in respect of the principal amount, premium and interest accrued from 1st February, 1983 in respect of the Unpresented Bonds; and
- (4) accordingly, instead of the aggregate of the redemption price and accrued interest of U.S.\$1,079.55 per Bond, the amount of U.S.\$1,692.34 will, subject to and in accordance with Condition 4, be available on and after 14th June, 1983 against due surrender of each Unpresented Bond (together with all relative unmaturing Coupons) to the specified office of any of the Paying Agents whose names and specified offices are set out below.

The attention of holders of the Unpresented Bonds is drawn to the Conditions endorsed on the Bonds and in particular Conditions 3(D) and 4 which contain further details regarding the above.

PRINCIPAL PAYING AGENT

Hambros Bank Limited
41 Bishopsgate
London EC2P 2AA

SUB-PAYING AGENTS

Luxembourg
Banque Générale du
Luxembourg S.A.
14 rue Aldringen
Luxembourg

New York
Manufacturers
and Traders
Trust Company
654 Madison Avenue
New York NY 10021

Brussels
Morgan Guaranty
Trust Company
of New York
Avenue des Arts 35
B-1040 Brussels

BY ORDER OF THE BOARD

D. E. Fisher
Secretary and Treasurer.

Pembroke, Bermuda.
Dated 31st May, 1983.

Extracts from the Report of the Committee and Statement
by the Chairman at the 116th Annual General Meeting
held in London on 27th May 1983



OTTOMAN BANK

Incorporated in Turkey with Limited Liability

Balance Sheet

The Balance Sheet total, £340 million, is down by £20 million due to a fall of 17% in the value of the Turkish Lira against Sterling. This fall could not be offset entirely by the increase in our Turkish business nor, as regards our business outside Turkey, by the increased value of the U.S. Dollar against Sterling.

Profit & Loss

The profits outside Turkey have continued to rise, due to high interest rates and the rise in the Dollar income of our subsidiaries in terms of Sterling.

The contribution of our profits in Turkey to the year's results has fallen considerably as a result of the devaluation of the Turkish Lira and the economic crisis which caused many firms to suspend payment, necessitating large provisions. Out of the sums awaiting transfer, after the payment of taxes and passing TL500 millions (£1,663,617) to local reserves, the Committee have considered it prudent that only £800,000 should be available as profits compared with £1,792,121 the previous year.

The 1982 Profit and Loss account therefore shows a profit of £2,907,975 compared with £3,735,457 in 1981.

After including the 1981 profits from Turkey transferred in 1982, i.e. £1,645,114, the amount available at 31st December 1982 is £3,796,876 against £2,579,231 at end 1981. Taking into account the continuing economic crisis in Turkey the Committee have decided to pass to Reserves £1,300,000. From the remaining amount of £2,496,876 the Committee recommend a distribution of £4.50 per share payable on 17th June 1983. In conformity with Article 40 of the Statutes, £111,111 will be distributed to the holders of Founders' shares at the rate of £14.40 per share and £111,111 to the Committee.

Committee

Mr. Desmond Reid, the Chairman of the London Committee, died suddenly on April 23rd last whilst on the Bank's business in Turkey. This was a great shock and is a tragic loss to the Bank, as well as to his many friends.

Baron Hottinguer and Monsieur Mallet retire at this meeting. We thank them for the outstanding service which they have given to the Bank. The Committee have invited Monsieur Jacques de Fouchier to fill one of the vacancies thus created.

Turkey

In Turkey, 1982 saw the consolidation of the authority of the present regime and progress towards the return of parliamentary Government.

On the economic front, the 1980 stabilisation programme was maintained. Inflation was reduced to about 30% per annum and the current account deficit was halved. On the

international front, Turkey's credit standing has been re-established. Internally, tight money policies and high interest rates led to a fall in industrial output. Unemployment worsened and many companies had to face grave financial problems.

The Banking Sector experienced a hazardous year, due to the unfavourable interest rate structure and the substantial increase in doubtful debts.

In these unfavourable conditions, our branches increased their deposits and turnover satisfactorily. Nevertheless, we were unable to avoid an increase in our doubtful debts and have thought it imperative to make large provisions. The outlook for 1983 is not encouraging and the profitability of our Turkish operations may be substantially reduced this year.

Last year, a report was given on our negotiations for the transfer of our branch network in Turkey to a company established under local law in which the Ottoman Bank would have retained a minority interest. For the time being these discussions have not reached any conclusion.

Hotel Company

The Istanbul Hotel, managed by the local affiliate of Wagons-Lits International, earned a worthwhile profit. The legal proceedings against the Intercontinental Hotel Corporation are still before the courts.

Société Nouvelle de la Banque de Syrie et du Liban
The Société Nouvelle de la Banque de Syrie et du Liban did not suffer the loss of a single member of their staff. The damage to their premises was of a minor nature only. The 1982 Balance Sheet totals LL1.6 billion against about LL1.4 billion at the end of 1981. The net profit after tax amounted to LL8.5 million. Given the uncertainties prevailing in the country, the General Meeting will be asked to approve the transfer of all the profits to Reserves.

Bank of Tehran

Our share of compensation, amounting to just over \$5,329,000, was paid to us earlier this year.

Net Asset Value

In 1980, the Committee published their valuation of the net assets of the Bank at £60 per share. The Committee believe it would be helpful to bring this valuation up to date. The greater part of the Bank's assets is in currencies other than Sterling and is subject to exchange rate fluctuations. A considerable part consists of banking premises, difficult to value, and shares subject to market fluctuations. With these reservations, the Committee have calculated that the net assets of the Bank stood at about £80 per share at end 1982. Copies of the Report and Accounts will be obtainable from:

The Secretary, Ottoman Bank Representative Office,
Dunster House, 37 Mincing Lane, London EC3R 7DN

FINANCIAL TIMES SURVEY

Tuesday May 31, 1983

Rhode Island

A good selling slogan for Rhode Island is 'small is beautiful.' That characteristic has persuaded many big international companies to set up in business there. Robert Mauthner reports on the state's diversity

Quality of life acts as a lure

RHODE ISLAND, tucked away almost invisibly on the map of the U.S. between Massachusetts and Connecticut along the New England coast, suffers from one pervading complex—it is the smallest state in America.

That fact, in a country as big as the United States, which is sometimes in the habit of confusing size with quality, is a constant source of anguish to the state authorities and accounts for some of the schizophrenia apparent in the plans for its economic future.

The official propaganda put out by the state proclaims that Rhode Island is "the biggest little state in the union." It tells us that, within 75 miles of Providence, the state capital, are located 65 per cent of New England's population—some 8m people.

Market of 77m

Within 300 miles, a mere hop along the excellent interstate routes, there is a market of 45m people with a combined income of \$350bn, within 500 miles a market of 77m people with an income of over \$525bn—and so on.

The statistics leave one reeling and wondering why Rhode Island does not have a separate seat at the western economic summit in Williamsburg.

A much better selling slogan would be "small is beautiful," not only because it is true in

the case of Rhode Island, but because that characteristic has persuaded even some very big companies to set up shop in the state.

One or two of the big companies, it is true, have their headquarters in Providence for purely historical reasons. Textron, the parent company of Bell helicopter and reputedly the first ever conglomerate, is a case in point.

Its founder, Royal Little, in 1928 bought a money-losing synthetic yarns company in Rhode Island, which was then one of the country's most important textile manufacturing regions, and Providence became the centre of his operations. Today, only two of Textron's many offshoots, Gorham the cutlery and china company, and Speidel, which makes watchbands and chains, are located in Providence.

Others, like General Dynamics' Electric Boat division, which produces hull sections for nuclear missile submarines, have been attracted to Rhode Island because they were able to find first-class industrial sites and communications.

That is only part of the story, however. One of the recurring themes in conversations with both American and foreign businessmen in Rhode Island is that they particularly appreciate its "quality of life."

They like living in Rhode Island and, that factor has



Governor J. Joseph Garrahy: main problem is deciding best path for economic recovery

Narragansett Bay, with its marinas full of pleasure yachts and seashore restaurants, can justifiably claim to be one of the most beautiful estuaries on the American Atlantic coast. Newport, which is situated at the mouth of the bay and is the home of the famous Americas Cup yachting race, has been a select resort since the beginning of the 19th century.

Finally, the state and its capital are redolent of history, which give them a special appeal. In 1986, Rhode Island will be celebrating the 350th anniversary of its foundation by Roger Williams as the first free haven of religious worship in the new world.

Roger Williams, the puritan of Puritans, broke away from the main colony in Massachusetts because it refused formally to sever its ties with the Church of England. A Congregational minister wrote of Rhode Island at the time that it was "a hive of hornets and the sink into which all the rest of the colonies empty their heretics."

That was the establishment's view. The Rhode Islanders believe that their founder was an uncompromisingly independent man whose ideas about religious liberty were far ahead of his time.

Rhode Island was the only colony which had a constitutional form of government from the very start, without any British-appointed administrators. It became the first free republic in North America in May 1776 by declaring its independence two months before the other 12 colonies. A statue of "independent man" still tops the dome of the state capital today.

Rhode Island's long history, by American standards, is reflected in some of the best colonial architecture to be found in New England and, indeed, in the whole of the U.S. Unlike Williamsburg in Virginia, which has been turned into a kind of living museum complete with fancy dress and horse-drawn carriages, the East Side of Providence, with its late 18th and early 19th century clapboard and red brick houses, is a normal residential area.

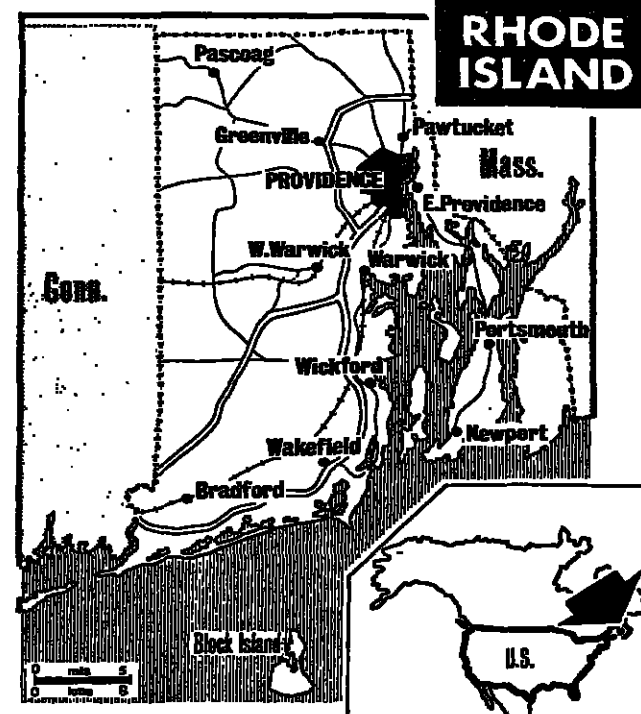
Dominated by the student population of Brown University, one of the Ivy League universities, it is very much part of the capital's life and 20th century preoccupations.

A later style of architecture bears witness to Rhode Island's pioneering role in America's industrial revolution. A surprising number of Victorian and early 20th century textile mills and warehouses, some of them converted into apartments, shops and restaurants, others still disused, can be found in the northern part of the state, particularly in the Providence area.

Textiles decline

Competition from the developing world, particularly the Asian countries, has drastically reduced the importance of Rhode Island's textile industry. In the last 15 years, the number of workers employed in the industry has dropped from some 55,000 to no more than 14,000 out of a total civilian labour force in the state of some 460,000.

Many of the companies that remain have successfully switched from traditional acti-



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Editorial production:	Arthur Dawson	
Design:	Philip Hunt	

reflect the growing industrial diversification of the state's economy. The traditional industries are still there but they have been complemented by a number of high technology activities.

Some of the most sophisticated work is going on at Raytheon Company's submarine signal division in Portsmouth and at the Naval Underwater Systems Centre at Newport. Indeed, defence contracts, valued at several hundreds of millions of dollars last year, were instrumental in cushioning Rhode Island's economy against some of the worst effects of the recession.

The main problem exercising the state's administrators as the country's economic recovery is beginning to get under way, is whether the biggest effort should go into modernising and developing traditional industry or advanced technology.

Much ink and words will be split before that issue, discussed in a subsequent article in this survey, is resolved. What is clear is that to go all out for "high tech" while allowing traditional industry to go to the wall would be a very risky business given the strong competition Rhode Island may be the smallest state in the U.S., but its problems are as big as anyone else's.

Johnson Matthey, the diversified British banking and precious metals group, which recently spent some \$20m in acquiring the East Providence jewelry company Catamore.

Johnson Matthey, which has struck fear into the hearts of the local industry with its integrated operations and sophisticated marketing methods such as jewelry leasing, could have a salutary effect on the Rhode Island jewelry industry, much of which appears to be too antiquated to survive in its present form.

Foreign companies

Johnson Matthey is one of about 40 foreign companies, about one-third of which are British, which have found a home in Rhode Island via subsidiaries. They include such well-known names as Hoechst, the West German chemical company, Metal Box, John Brown, BTR and Cadbury Schweppes of Britain and Ciba Geigy, the Swiss pharmaceuticals group, which is involved in a dispute over its disposal of chemical waste into the waters of Narragansett Bay.

The diversity of these companies and their activities

Fleet National Bank.



One of Rhode Island's greatest resources.

Those who visit Rhode Island are struck by the wealth of resources here.

Among them is Fleet National Bank. We are the core of a \$4½ billion diversified financial services company.

The business resource. Fleet is Rhode Island's oldest and largest bank and a leader nationwide. Our services include a full range of commercial banking activities with special emphasis on energy, communications, jewelry and precious metals, commercial fishing and other financial institutions.

Of interest to those establishing a business in our home

area are Fleet's capabilities in real estate banking. With our affiliate Fleet Mortgage, we are the fifth largest mortgage banker in the U.S. and the second largest commercial real estate lender in the region.

Should your plans extend beyond New England, Fleet can easily assist your growth. Through our parent organization, Fleet Financial Group, we have over 200 offices spread strategically across the United States.

The international resource. Fleet has a fully staffed operating branch in London, as well as Fleet International Bank in New York City. There is

also a representative office in Cairo and a newly opened subsidiary in Hong Kong. We offer 24-hour-a-day worldwide coverage in handling any international financial needs.

Our London office is located at 52 Cannon Street, London, EC4N 6LY, England—Phone: 01-248-9531. In the United States contact Robert J. Higgins, Executive Vice President at (401) 278-5777, or write to him at 111 Westminster Street, Providence, RI 02903.

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Textron is a diversified manufacturing company with operations in seven basic Groups: Aerospace and Electronics, Outdoor Products, Specialty Consumer, Machine Tool and Precision Bearing, Engineered Fasteners, Industrial Products, and Venture Capital and Financing.

Textron Inc.
40 Westminster Street
Providence, Rhode Island 02903
(401) 421-2800



Governor J. Joseph Garrahy is pleased to announce the opening of the

STATE OF RHODE ISLAND

EUROPEAN OFFICE

in Geneva, Switzerland

For your convenience the Rhode Island Department of Economic Development now has a full service office in Geneva, Switzerland. Our professional staff can provide complete assistance to all European-based companies interested in foreign direct investment or international trade opportunities in the State of Rhode Island.

For more information about Rhode Island please contact:

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1201 Geneva, Switzerland
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Telex 28 618 GEF

RHODE ISLAND II

Strategic Development Commission seeks consensus

Economic aims in the melting pot

ECONOMIC PLANNING may be a dirty term in the White House in Washington but it is all the rage in Democrat-dominated Rhode Island. For Rhode Island, a small state in the country, is more worried than most that tough international, not to mention domestic, competition will leave it standing as the new technological revolution gathers pace.

It is not that Rhode Island is deprived of advanced industries, it is that they are not deeply enough implanted or spread widely enough to compensate for the relative decline of a number of traditional industries such as textiles and machine tools. As Mr J. Terrence Murray, the chairman of the Fleet Financial Group and chairman of the newly-created Rhode Island Strategic Development Commission summed it up: "In a state of only 1.2 million people, the lack of breadth and depth of the economy is the overriding problem."

Recognition of that problem and an untypical realisation (for the U.S.) that the market place alone is unlikely to provide a solution is why Rhode Island is currently so planning conscious. The term, in an American context, must be understood somewhat differently from the way it is sometimes used in Europe.

Exhaustive study

The idea is not for the state authorities to impose an industrial policy but, on the basis of an exhaustive study, to create the right conditions for the future economic development of the region.

With this end in mind, two significant steps have been taken by the state since the autumn of last year. Governor Garrahy set up the Strategic Development Commission with a membership of 15 of the state's most prominent business and educational figures and Mr Norton L. Berman was appointed as the dynamic new Director of what had become a rather sleepy Department of Economic Development (DED).

When the Commission was formed, there was some confusion about its aims. The Governor, who had been strongly influenced by a report drawn up by the New England Board of Higher Education on the links between higher education and advanced technology, clearly felt that the Commission should be devoting most of its energies to promoting high

technology research and industries in Rhode Island.

That, however, did not fit in with the views of the Commission Chairman, Mr Murray, and even less with those of the brilliant 35-year-old international business consultant, Mr Ira Magaziner, who is volunteering his services to conduct the Commission's comprehensive study. The final conclusions of the study are due to be published in July this year.

Magaziner, a graduate of Brown University, a former Oxford Rhodes scholar and co-author of "Minding America's Business," a book dealing with international competition and industrial policy, probably harbours long-term national politico-economic ambitions. For the moment, however, he is content to promote his ideas at the state level in the firm belief that they could make an original contribution to economic development strategy.

Magaziner is bringing to the study, reputedly one of the most comprehensive ever done of an American state's economy, all the special skills of his Providence-based business consultancy firm, Telesis Inc., which also has foreign offices in Paris and Melbourne.

The following are examples of the in-depth data that is being gathered:

• Information on cost structures, competitive positions, growth prospects, labour force patterns and company structure will be compiled for almost every company in the state which trades with the outside world.

• An analysis will be made of every company with over 50 employees which has gone out of business or moved from the state or which has shed more than 100 jobs during the past 10 years.

• Direct interviews will be conducted with all small businesses in the state to find out more about their characteristics, markets, growth and their capacity to create jobs.

• An analysis will be made of all the research facilities in universities, hospitals and other institutions in the state to establish the possibility of industry linkages.

The recommendations to be made by the commission on the basis of these findings will address themselves to such problems as how to stabilise and selectively expand Rhode Island's industrial base, what new growth areas should be



Norton L. Berman, dynamic new Director of Department of Economic Development

developed, how to improve the state's infrastructure and how to provide better training facilities.

Although it will be another two months before the detailed recommendations are made public, the general trend of the Commission's thinking is already clear.

Both Mr Murray and Mr Magaziner spurn the view that "high tech" is the answer to the state's basic economic problems, particularly given the fact that everyone else appears to be in on the act. They have emphasised that there are now 13 states with high technology advisory councils and 19 programmes in various parts of the country to promote university-industry technological partnerships.

Competition

With so much competition around it is unlikely that a small state like Rhode Island could attract new industries during the next few years in sufficient numbers to replace all the jobs in its traditional sectors.

The foreseeable future of Rhode Island's economy therefore lies mainly in making existing industries such as jewellery, textiles, boat-building and fishing more efficient and therefore more competitive.

Certainly, they are not opposed to attracting some advanced technology companies as part of the overall plan, but they see "high tech" mainly as contributing to improving existing industries.

A similar line is being taken by Berman at the DED, who has started his term of office with an information-gathering trip, aimed at finding out what the business community really feels about the economic development of the state.

While Berman is also very much concerned with expanding and improving existing industries in Rhode Island — he would hardly have been hired in the present climate if he was not — the DED director is also very interested in attracting foreign business to the state.

In a previous post as Director of the Office of Economic Development of the Michigan Department of Commerce, Berman built up something of a reputation for his ability to develop the state's international relations. He will certainly try to do the same for Rhode Island, as the opening of a representative European office in Geneva clearly demonstrates.

With some 40 subsidiaries of foreign companies present today on Rhode Island soil, a solid international economic climate has already been created in the state. If such famous names as John Brown, Hawker Siddeley, Metal Box and Cadbury Schweppes of the UK, Hoechst, Rosenthal and Kieckhefer-Möller of West Germany, Ciba Geigy of Switzerland and Sandvik of Sweden have found the Rhode Island soil fertile, others will undoubtedly follow in their footsteps.

What clearly emerges from the debate about the future economic development of Rhode Island is that the intellectual arguments about the whole subject have become unrealistically polarised, at least in the way they have been presented to the public.

A kind of baseball match mentality in which the "High Tech" square up to the "traditional industrialists" in the key encounter of the decade, is hardly conducive to settling complicated local economic issues.

The betting is that when the Strategic Development Commission comes up with its final recommendations, the choice will be less clear-cut than that. The aim is to reach a consensus and that necessarily means a mix of the two strategies.

As someone described it in typical American fashion on a local radio station: "the bottom line is having to meet in the middle."

Strong banking sector for small state

RHODE ISLANDERS like to joke that their state is much bigger than their state and it is not so very far from the truth. The bank buildings dominate downtown Providence, making it look like a mini-Manhattan, and their holding companies have spread their tentacles far beyond the state's borders and even abroad.

By far the most important financial institution in the state is the Fleet Financial Group, formerly the Industrial National Corporation, a \$4.5bn asset financial services company. It has more than 200 offices in 23 states and five foreign countries, including a full branch in London, a deposit-taking company in Hong Kong and a branch in the Cayman Islands.

One of the country's oldest financial institutions—it was founded in 1791 and has paid dividends without interruption since 1792—Fleet's services are very diversified, both functionally and geographically. They range from commercial and trust banking to consumer finance, mortgage and real estate banking, leasing and factoring, venture capital and data processing.

The group's results have been particularly encouraging recently. Net earnings in 1982 rose to an all-time record of nearly \$40m, or \$6.26 per share, a year-on-year rise of as much as 15 per cent. Currently, well over 50 per cent of the group's earnings are generated outside the state.

First quarter results this year continue the very satisfactory trend with a record net income (after security transactions) of \$10.5m, up 10 per cent over the same period of 1982.

Investment analysts agree that the Fleet Financial Group will maintain its good performance this year and will therefore remain an excellent stock exchange investment.

Earlier this year, Solomon Bros forecast another increase in profits of nearly 11 per cent in 1983, or about \$7 per share, while Keefe, the bank securities specialists, heaped the following praise on the Providence-based group:

"We continue to regard Fleet as a very attractive stock for long-term investors. After all, it is not often we find a bank that sells at six times earnings and offers investors the combination of an 18.5 per cent current return on equity."

Equally important is the



The financial and commercial heart of Providence, capital of Rhode Island. To the left is the tower of the Industrial Bank Building. The Hospital Trust Tower dominates the centre of the view

view of analysts that Fleet, at the moment the 55th largest banking institution in the U.S., is particularly well-placed to take advantage of the forthcoming relaxation of interstate banking barriers in the New England region. A large amount of capital has recently been raised by the group with an eye to expansion and it has already acquired stakes in other New England banks.

Banking Bill

Following in the footsteps of Maine and Massachusetts, the Rhode Island General Assembly has just passed an interstate banking Bill, which will permit bank acquisitions and mergers in states with similar laws.

The legislation, which is due to come into effect on July 1 1984, will be restricted to the New England region for two years, after which it will apply to all states. Connecticut and New Hampshire are considering similar laws.

Diversification is also the order of the day at the Old Stone Corporation—assets \$2bn—and the Hospital Trust Corporation, the state's second and third biggest financial institutions, though with very different results so far.

Old Stone, which made a big

loss in 1981 of \$14.7m, caused mainly by the sale of some \$200m of fixed rate loans and securities, was back on the road to recovery in 1982 with net earnings of \$14m, or \$3.77 per share.

The sale of 11 per cent of the bank's low yielding assets was explained by the management of the bank as a deliberate move to improve the balance between interest rate sensitive assets and liabilities.

The other side of the coin is that Old Stone is presently realising extraordinary tax credits from the sale. In the first quarter of 1983, its net earnings were up by as much as 23 per cent over the same period last year to \$3.6m.

Like Fleet, which saw its mortgage banking and real estate earnings jump to a spectacular 40 per cent last year in spite of a lacklustre economy, Old Stone's strong performance in the first quarter is largely the result of its activities in the same sector. However, it is hardly in the same league as Fleet, which hoisted itself into fifth place in the nation's table of largest mortgage bankers last year. This was thanks to the acquisition of the large mortgage servicing portfolio of

Graham Mortgage Corporation, a subsidiary of Manufacturers National Bank of Detroit. By contrast, the performance of Hospital Trust Corporation, which owes its name to its origins as a fund-raising institution for a hospital built after the Civil War, was distinctly disappointing.

Having pushed its market diversification and geographical expansion programmes somewhat too quickly to cope with the accelerated deregulation of the financial services industry in the U.S., Hospital Trust last year suffered an unprecedented decline of 62 per cent in its earnings. It loan losses and operating costs were also much higher than expected.

As a result, some fundamental changes in the management organisation have been made and financial control has been tightened up significantly. Whatever its recent and probably temporary misfortunes, Hospital Trust remains one of the most interesting of the state's banking institutions. The bank is internationally known for its precious metals activities and is the largest industrial gold supplier in the U.S., an important factor locally, given Rhode Island's prominence as a jewellery manufacture centre.

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Thomas W. Hoagland, Senior Vice President

For more information, call or write Thomas W. Hoagland, Senior Vice President of the Corporate Banking Group, Citizens Bank, 146 Westminster Street, Providence, RI 02903. (401) 456-7440.



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RHODE ISLAND III

First-class industrial parks are among the lures for companies

Business climate brightens

IN ITS efforts to revitalise the Rhode Island economy, the state's Department of Economic Development (DED) has one big ace up its sleeve: it can offer industrial companies some first-class sites for their operations.

Among the various industrial parks available, by far the most impressive is the 800 acres at Quonset Point/Davisville, which was once an important naval base. When the U.S. fleet left Rhode Island in 1974 for warm water facilities where it could train all the year round, it left behind it a large flat area with infrastructure facilities second to none.

Situated less than 30 minutes drive south from Providence just off Interstate route 95, the Quonset/Davisville park can host three major ports which provide more than 6,800 linear feet of dockage on Narragansett Bay and a 30-ft shipping channel leading to the Atlantic.

In addition it has its own airport with a main runway of 8,000 ft, which can handle the biggest cargo planes and a rail system which connects directly with the main ConRail line.

Although the park is still relatively empty for reasons which are not very clear, the state has managed to land one very big fish, General Dynamics' Electric Boat division, which manufactures hull sections for the Trident nuclear missile submarine and employs some 5,000 people.

The Electric Boat plant at Quonset Point prides itself on being the largest non-unionised facility in the north-east region of the U.S. which, in American eyes, is a plus point and should appeal to other prospective tenants of the park.

Another area which state and city authorities are very anxious to develop is the Port of Providence at the head of Narragansett Bay. This has a 40-ft channel, 600 to 1,300 ft wide, and a municipal wharf owned and operated by the City of Providence, with 4,750 ft of berthing space.

Still an important entry point for imported motor cars, the capital's port has obviously seen better days and suffers very much from the competition of the bigger and more efficient port of Boston in neighbouring Massachusetts.

"Our aim is to make the place



The 800-acre Quonset Point/Davisville industrial park was once an important naval base

look as if it is open for business rather than a junk heap, as at present," Mr William H. D. Goddard, Chairman of the Providence Port Commission wryly remarked.

The plan is to turn it into an industrial port in which the city authorities will operate joint ventures with private business. The process has already started with the acquisition by two businessmen, with the financial help of the city, of two container cranes capable of handling 40 standard 40-ft boxes an hour.

Handling target

The current handling target for the port is 10,000 containers a year, which would bring in a substantial sum for the city in docking and storage fees, though it will probably require the transfer of automobiles at present stored at the port of Providence to Quonset Point.

All this is small beer, however, compared with the state's plans to transform the Providence port area, as well as the 800 acres of land at Quonset Point/Davisville into so-called Foreign Trade Zones.

An application to this effect was formally submitted to the relevant Federal authorities in Washington in mid-May and will take up to nine months to process. The state and city

authorities are very confident that it will be granted.

If it is, that would be a real breakthrough for the economic development of Rhode Island and provide a major opening to the U.S. and foreign companies trading with the outside world. At the moment, Rhode Island is the only New England state without such a zone.

The practical effect of foreign trade zone status was explained by Mr Norton L. Berman, Director of the D.E.D. before his departure for Washington to present the application. Normally, a company which imports goods into the U.S. and then re-exports them to a third country must pay duty on the goods even though the ultimate destination is the U.S. market.

When the goods are imported into a foreign trade zone, the company can transform and re-export them without the goods ever entering a U.S. customs territory. As a result, no duty has to be paid on them.

Moreover, duties on components are often higher than on finished products. By assembling components in a foreign trade zone, a company can bring a finished product into the U.S. customs territory at a lower tariff than if it had officially imported components for assembly without passing through a foreign trade zone.

In common with other states in the U.S., Rhode Island has

launched a persuasive campaign to attract companies to the state and the Department of Economic Development has issued a comprehensive booklet setting out the advantages offered to foreign investors.

Taken in conjunction with the good quality of the industrial sites which the state is making available and the likelihood that the foreign trade zone application will be granted, Rhode Island's incentive packages are now probably as good as most and better than some.

The business climate has undoubtedly improved since the 1982 revision of the state's workers' unemployment compensation tax system which, judging by all the complaints one hears from local businessmen, has been very burdensome.

Rhode Island is only one of two American states which pay unemployment benefits to workers, but it now has a more flexible rate system under which rates paid by employers range from 2.5 to 6 per cent of the first \$200 of an employee's wages.

Rhode Island offers new industries three types of financing programmes:

1. Industrial revenue bonds issued by the Rhode Island Port Authority and Economic Development Corporation provide up to 100 per cent financing for industrial and commercial projects up to \$10m at tax exempt rates.

2. The insured mortgage financing programme provides mortgage insurance for industrial construction, renovation and expansion of existing facilities.

The state guarantees repayment of the first mortgage up to 90 per cent of the total cost of industrial real estate and up to 80 per cent for new machinery and equipment to a maximum of \$5m.

3. Insured revenue bond financing reduces the interest rate for smaller companies that would not qualify for Industrial Revenue Bond financing.

The financing programmes go hand-in-hand with a number of significant tax incentives, including exemption from local property tax on new manufacturers located in Rhode Island and exemption from sales tax on manufacturing machinery and equipment.

In addition, the state reimburses employers for up to 50 per cent of special on-the-job training programmes.

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Education stresses 'high-tech'

WHATEVER the final recommendations of the Rhode Island Strategic Development Commission turn out to be, there can be no doubt that considerable attention will be devoted to the state's universities and institutes of higher learning. In the U.S., even more than elsewhere, great emphasis is being laid on the need to produce a sufficient number of highly qualified scientists, engineers, technicians and doctors to take advantage of the accelerating pace of technological progress.

The Rhode Island administration is clearly aware of the favourable impact that good universities can have on the surrounding environment. One only has to look at neighbouring Massachusetts to realise what the effect of the famous Massachusetts Institute of Technology (MIT) has been.

A senior member of the Brown University teaching staff in Providence has pointed out that both the development of "high-tech" industries on route 128 around Boston and in Silicon Valley in California has been due largely to the research activities of MIT. In the first case, and Stanford University in the second.

The spin-off from the Rhode Island economy from the state's institutions of higher education has certainly been less spectacular so far, but there are signs that things could change very soon.

Rhode Island and its capital Providence, are fortunate in being the home of Brown University, founded in 1764 and the country's seventh oldest college. One of the reputedly exclusive New England Ivy League universities, of which Harvard and Yale are the best known members, Brown looks every bit the venerable institution that it is.

Green and leafy

Situated on a hill in Eastern Providence in a green and leafy district full of historic 18th and early 19th century buildings—a kind of New England Oxford or Cambridge—the visitor could be forgiven for thinking that Brown was somewhat remote from the real world.

That, however, would be a mistake. Over the past decade, Brown has made a serious effort not only to rid itself of the stuffy image sometimes associated with Ivy League colleges, but to hoist itself into the second half of the 20th century.

While other traditional universities have returned to more rigid curricula retouching the educational upheavals of the late 60s, Brown prides itself on providing a particularly flexible curriculum. Arts



Brown University, Providence, was founded in 1764 and is the country's seventh oldest college

students are encouraged to put their own courses together and are not required to take a number of compulsory subjects, as they are in the other Ivy League universities.

Considerable care is taken by the student admissions committee to achieve a balanced social, geographical and racial mix among new undergraduates. As a result, Brown has recently become the most popular of all the Ivy League colleges, beating even Harvard and Yale for the number of entry applications. This year, it received more than 13,000 applications for just over 1,800 places.

The university has also built a solid reputation for itself in the medical field, though it has had a medical school for little more than a decade. While it does not have its own teaching hospitals, it is closely associated with eight community hospitals in the state, where all the students' clinical education is obtained.

Brown's medical programme has had a great impact on medical care in Rhode Island. Hospitals affiliated with the university and they can attract and retain highly qualified American-trained physicians, whereas before, 50 to 60 per cent of the doctors in the state's hospitals were graduates of foreign medical schools.

Rhode Island's economic planners hope that, now the breakthrough has been made, the state can also become the centre of a profitable Medicare products industry. This suggestion will probably figure in the Strategic Development Committee's final report.

But the field in which Brown is really in the vanguard of

progress is the computerisation of information and learning techniques. A few years ago, the university's 127 buildings were linked by co-axial cables in the first step towards the creation of an ambitious computer network.

Time-sharing

Under a \$50m to \$70m plan now being considered by the university authorities, it is proposed that the present time-sharing accounts on a large mainframe computer system should be replaced by a system of powerful personal computers.

These are described as "scholars' workstations," which would provide the kind of services traditionally offered by a full-time research assistant and would be highly sophisticated in their analytical techniques.

The workstations will become available to students as early as the next academic year and, by 1988, some 10,000 will be provided on the university campus.

Both the privately endowed Brown University and the state-funded University of Rhode Island are co-operating more with private industry in joint research projects. Brown pioneered a partnership arrangement with an industrial corporation which has since been copied by other universities.

Under this arrangement, Sphero Technology Inc of Providence will manufacture and market products developed by an engineering professor at Brown who is perfecting a system of voice commands to computers.

In return, the company has given the university a large block of shares in Sphero which could amount to a very substantial financial endowment for the university's Laboratory for Engineering Man/Machine Systems if the enterprise proves to be successful.

In the words of the Governor of Rhode Island, Mr Joseph Garrahy: "This is a good example of how strong links between industry and our universities' research capabilities can lead to exciting commercial applications that will provide new jobs for Rhode Islanders."

The University of Rhode Island, meanwhile, has created a joint research centre with local industrial companies on robotics with the aid of a large grant from the National Science Foundation. The target is to attract some 60 companies to co-operate in the scheme over the next few years.

URI, though not as famous as Brown, is making a substantial contribution to the state's economy. Situated in South Kingstown, some 30 miles south of Providence and only six miles from the sea, the university has an excellent department of oceanography, reputed to be one of the best in the country.

Graduates from URI provide about 15 per cent of the engineering staff of the nearby Naval Underwater Systems Centre. But it is an unfortunate fact that a university which is obliged—unlike Brown—to take a high proportion of Rhode Islanders among its students, still loses most of its engineering, computer and other graduates to other states.



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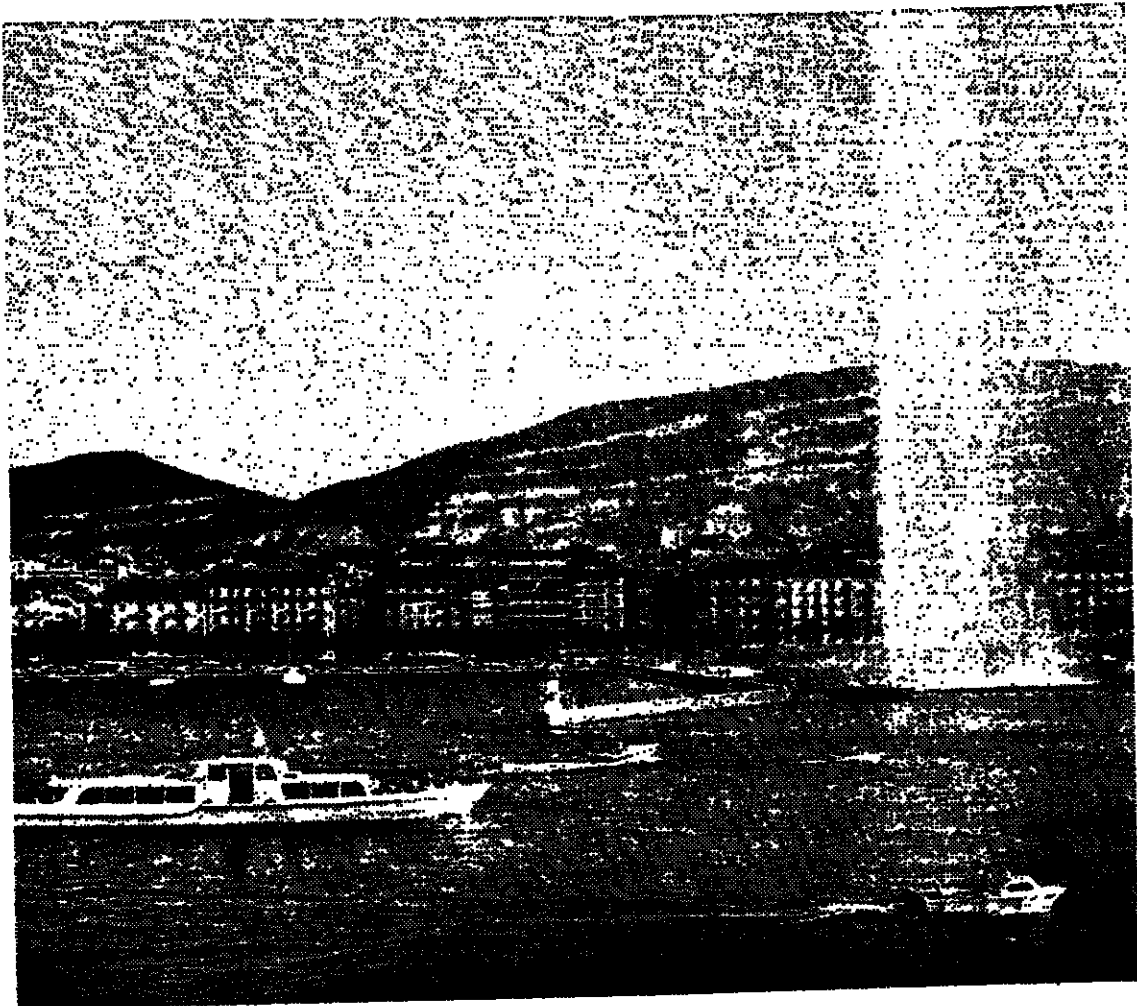
With over 400 miles of coastline, Rhode Island is a recreational paradise. The home of the America's Cup, it also boasts miles of unspoiled beaches and nearby mountains.

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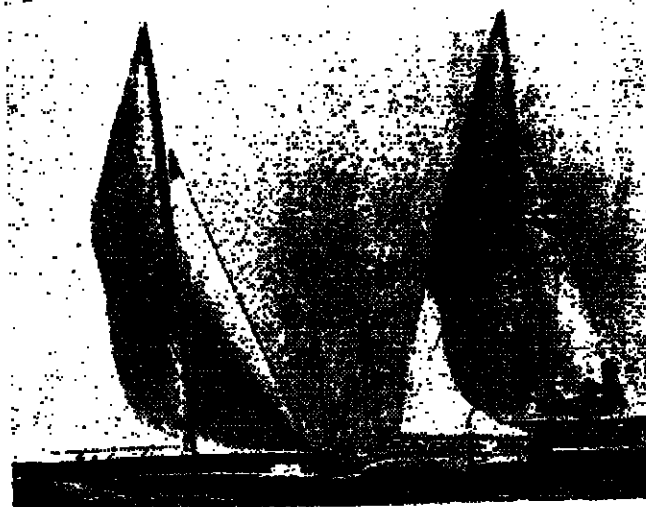
—FORTUNE Magazine, Dec. 29, 1980



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RHODE ISLAND IV



America's Cup competitors in Rhode Island Sound

America's Cup is big business

THE AMERICA'S CUP, probably the world's most prestigious yacht race, which is being held between June and September in Newport this year, has become very big business indeed.

Millions of dollars are being poured by the "Auld Mug"—syndicates from Britain, Australia, Canada, France and Italy—into their attempts to win a trophy which has been in American hands since 1851.

In that year, the schooner America crossed the Atlantic to beat all the British competitors in a race round the Isle of Wight. Between 1860 and 1881, 24 unsuccessful challenges for the elusive cup have been made by Britain, Australia, Canada, France and Sweden.

Until very recently, the challenging boats have been hampered by lack of finance and efficient organisation, coupled with the severe handicap of having to race far from home. But this year, Peter de Savary, the 35-year-old British financier who formed the Victory syndicate in 1980, believes he has both the money and the organisation to mount a successful challenge.

Chewing on a fat Havana cigar in the luxurious living quarters of his ocean-going motor launch *Kalima*, once the property of Richard Burton and Elizabeth Taylor and now his temporary Newport home, de Savary readily admits that he will have spent some \$5m on the challenge since 1980.

That is about twice as much as the \$2m which each of the two American syndicates—the Freedom and Defender-Courageous groups, which will be fighting it out to decide who will represent

the U.S. in the race—have budgeted for.

The money does not, of course, all come out of de Savary's own pocket. Some 30 to 40 companies are involved in sponsoring Victory 83 and de Savary estimates that the amount of free equipment and services the syndicate has received at about \$1m. "And the ball is only just starting to roll."

"In addition, we will have a lot of hardware to sell at the end, win or lose. We do, after all, own four 12-metre yachts." These include two new boats, Victory 82 and Victory 83, the 1980 British contender *Lionheart* and the 1980 challenger *Australia*,

which de Savary has bought as a sparring partner for Victory 83.

The amount of money spent on the boats, however, is relatively small compared with infrastructure and general running costs. The Victory syndicate has to house and feed some 82 people altogether, including several wives and children, for which purpose it has rented four houses in Newport.

Its back-up organisation is formidable, including a fully equipped workshop, which can do all but the most major repairs to boats and equipment, and several support craft.

Peter de Savary hotly dis-

missed suggestions made in the U.S. Press that the reason why the challenges have a much better chance of winning this year's race than before is that they now have access to advanced American technological equipment.

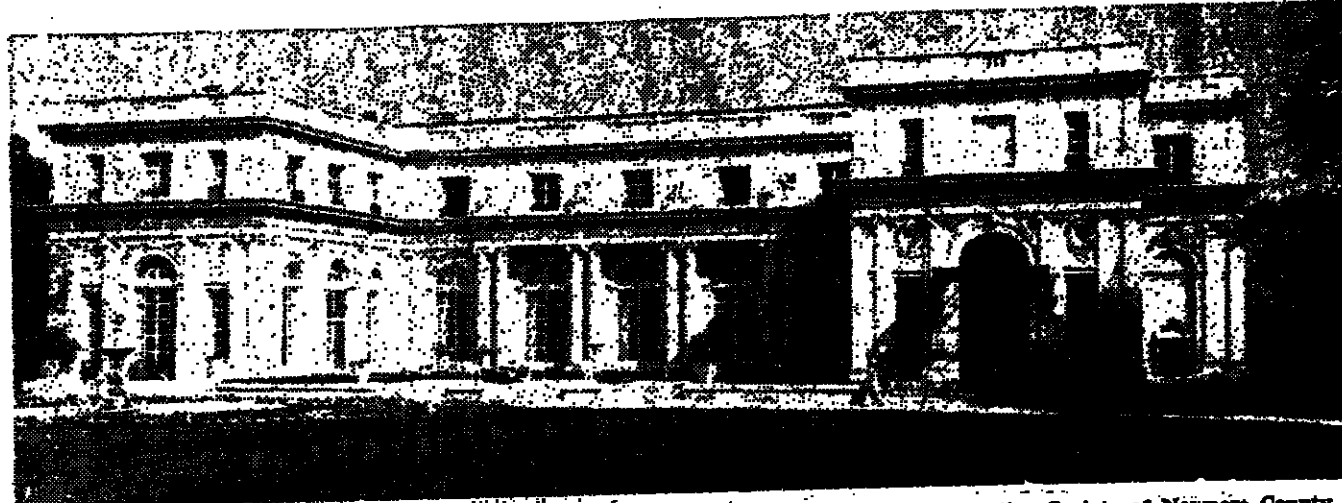
While it was true that everyone had the right to buy equipment and materials "off the shelf," that was as far as it went. "Our boat must be designed in Britain and we must use an American loft to stitch the sails together."

He pointed out that while the Victory syndicate had originally bought an American mast, this had later been abandoned because it was found that the British product was better. The U.S. syndicates had themselves acquired British winches, which showed that the technical traffic was not all one way.

In the case of computers, the rule was that they could be bought "off the shelf" as long as the software was designed in Britain. The British boats had tactical computers aboard, designed and supplied by KCL.

"We are encouraged that we've got the best challenge ever," Peter de Savary said. "There is no reason why the best from Britain is not good enough."

In the last resort, however, it was the human factor which counted most. "You can have the finest hardware and still not win the America's Cup." The main reason why the Americans had always won the race in the past was that their teamwork was so much better. The chief problem on the British side was not a set of highly talented individuals to suppress their egos and work as a team. "Very great progress had been made in that direction," de Savary maintained.



Rosecliffe, modelled after the Grand Trianon at Versailles, is now owned by the Preservation Society of Newport County

Newport has everything from lovely beaches to historic houses

Where cottages are palaces

HOWEVER hard the economic planners may try, they are unlikely to come up with a more successful formula for attracting money, business and visitors to Rhode Island than that provided by the famous Atlantic coastal resort of Newport.

Situated on the tip of an island at the mouth of Narragansett Bay and linked to the mainland by two imposing bridges, Newport has all the necessary ingredients of an attractive holiday resort—a healthy climate, beautiful beaches, historical buildings, good sea-food and a world class sporting event, the America's Cup yachting race.

It is also the home of the internationally famous Newport jazz festival, a "happening" which was discontinued for several years, but is due to be revived.

The America's Cup alone is expected to funnel into Newport in 1983 \$50m to \$70m in addition to normal tourist receipts, and it seems doubtful whether the 1,000 available hotel rooms in the area will be sufficient to accommodate the large influx of American and foreign visitors.

Nevertheless, the municipal authorities are to be congratulated for the unusual achievement by a popular holiday resort of preserving its traditional features almost intact.

These features include not only one of the most genuine and well-preserved conglomerations of 18th and early 19th century colonial buildings in New England, but a truly amazing collection of country mansions built along the seashore by the new rich in the post civil war period.

At the same time, the harbour area has been redeveloped in a style and with building materials which respect the colonial architecture of the old town and which, above all, avoid the excesses of scale so commonly found in modern European resorts such as those on the Costa del Sol in Spain and the Côte d'Azur in France.

For all the changes of the past few years, Newport remains a pleasant yachting and fishing village which has retained much of its character and which still appears to be slightly overshadowed by the hullabaloo surrounding the America's Cup.

It comes as somewhat of a surprise to the visitor from Europe to learn how long Newport has been a vacation centre.

Because of its temperate maritime climate, it attracted visitors from the hot and humid southern states as long ago as the early years of the 19th century.

The first hotel was built in the mid-1830s and the earliest summer houses date from the 1840s. Hundreds of guests used to stay in the town's hotels between 1825 and 1855 during what was already known as "the Newport season," attracting gossip writers from many of the big city newspapers.

By 1862, when Anthony Trollope paid a visit to Newport and a boom in "cottage" construction had begun, the English novelist was able to write of the international reputation which the resort had won.

The word "cottage" as a description of some of the edifices built along Bellevue Avenue is probably one of the few understatement ever employed by Americans. They are more like castles and palaces, inspired mostly by French prototypes such as the palace of

Versailles and Italian models.

Various branches of the Vanderbilts and other leading families vied with each other and Louis XIV, during what has come to be known as America's "gilded age," to build architectural monuments which take the breath away.

The mixture of styles to be found in mansions such as The Breakers, Marble House, Rosecliffe and The Elms provides a diet considerably richer than the clam chowder and lobster to be found in restaurants in Newport harbour.

Impressive

Yet whatever reservations one might have about the recreation of some of Europe's architectural masterpieces in a completely different environment, it has to be admitted that the result is impressive and, from a tourist's point of view, well worth a visit.

What is more, most of the furniture, china, glassware, pictures and objects d'art have been fastidiously and lovingly collected and could certainly find

a place in the world's greatest museums.

Thanks to the Newport Preservation Society, eight of the most outstanding mansions have been preserved in pristine condition and can be visited by tourists in the same way as the stately homes in Britain.

Newport, of course, is not Rhode Island's only tourist attraction—far from it. The state is blessed with a set of large areas of wooded country and inland lakes, but a beautiful southern coastline, whose fine beaches are all the more attractive for being relatively unexploited, and which provides excellent facilities for fishing.

But Newport certainly remains the jewel in the tourist industry's crown, attracting something like 3.5m visitors a year from inside and outside the state. The Newporters are crossing their fingers that they won't lose the America's Cup, for if the competition were to be held elsewhere next time, that would clearly remove some of the glitz from the local gingerbread.



Peiham Street, Newport, is lined with 18th and 19th century houses. The city has more pre-1820 structures standing than any other community in the United States

FT UNIT TRUST INFORMATION SERVICE[illegible]

BASE LENDING RATES

A.B.N. Bank	10	%	Heritable & Gen. Trust	10	%
Al Baraka International	10	%	■ Hill Samuel	10	%
Allied Irish Bank	10	%	■ Hongkong & Shanghai	10	%
Amro Bank	10	%	■ Kingsnorth Trust Ltd.	10	%
Henry Ansbacher	10	%	■ Knowsley & Co. Ltd.	10	%
Arbuthnot Latham	10	%	■ Lloyds Bank	10	%
Armasco Trust Ltd.	10	%	■ Malindi Lims	10	%
Associates	10	%	■ Edward Manson & Co.	10	%
Banco de Bilbao	10	%	■ Midland Bank	10	%
Bank Hapoalim BM	10	%	■ Morgan Grenfell	10	%
BCCL	10	%	■ National City of Kuwait	10	%
Bank of China	10	%	■ National Girobank	10	%
Bank Leumi (UK) plc	10	%	■ National Westminster	10	%
Bank of Cyprus	10	%	■ Norwich Gen. Tst.	10	%
Bank of Scotland	10	%	■ P. S. Refson & Co.	10	%
Banque Belge Ltd.	10	%	■ Roxburgh Guarantees	10	%
Banque du R. Cap.	10	%	■ Royal Trust Co. Canada	10	%
Barclays Bank	10	%	■ Slavenburg's Bank	10	%
Beneficial Trust Ltd.	11	%	■ Standard Chartered	10	%
Bremar Holdings Ltd.	11	%	■ Trade Dev. Bank	10	%
Brit. East of Mid. East	10	%	■ Trustee Savings Bank	10	%
Brown Shipley	10	%	■ TCB	10	%
Canada Permt Trust	11	%	■ United Bank of Kuwait	10	%
Castle Court Trust Ltd.	10	%	■ United Mizrahi Bank	10	%
Cayser Ltd.	10	%	■ Volksas Intnl. Ltd.	10	%
Cedar Baring	10	%	■ Westpac Banking Corp.	10	%
Charterhouse Japhet	10	%	■ Whiteaway Laidlaw	10	%
Choulouars	11	%	■ Williams & Glyn's	10	%
Citibank Savings	10	%	■ Wintrust Secs. Ltd.	10	%
Clydesdale Bank	10	%	■ Yorkshire Bank	10	%
C. E. Connell	10	%	■ Members of the Accounting Houses	10	%
Comm. Bk. of N. East	10	%	■ Committees	10	%
Consolidated Credits	10	%	■ 7.00% short-term	23.00%	%
Co-operative Bank	10	%	■ 7.00% short-term	23.00%	%
Co-operative Popular Bk.	10	%	■ 7.00% short-term	23.00%	%
Duncan Lawrie	10	%	■ 7.00% short-term	23.00%	%
E. T. Trust	10	%	■ 7.00% short-term	23.00%	%
Exeter Trust Ltd.	10	%	■ 7.00% short-term	23.00%	%
First Nat. Savings Group	10	%	■ 7.00% short-term	23.00%	%
First Nat. Secs. Ltd.	12	%	■ 7.00% short-term	23.00%	%
Robert Fraser	10	%	■ 7.00% short-term	23.00%	%
Grindlays Bank	10	%	■ 7.00% short-term	23.00%	%
Guinness Mahon	10	%	■ 7.00% short-term	23.00%	%
Hambros Bank	10	%	■ 7.00% short-term	23.00%	%

Financial Times conferences have been organised all over the world on a wide range of subjects. They are always topical and are often used as vehicles for governmental policy statements.

Speakers have included senior politicians, heads of state and senior executives recognised internationally as experts in their fields.

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**Financial Times Conference Organisation,
Minster House,
Arthur Street, London EC4R 9AX.
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Financial Times conferences have a high reputation throughout the business world as an opportunity to exchange ideas and keep up with the latest developments in all areas of activity.

28 Lovat Lane London EC3R 8EB Telephone 01-631 1211

Over-the-Counter Market					
1990's valuation	Company	Change Price on week of	Gross yield (p)	Fully Actual rate	Fully 1989 10.3
4,408	Ass. Brit. Ind. CULS	132	+1	6.4	7.8
3,763	Ausprung Corp.	65	+1	6.1	8.4
3,600	Arndorff	26	-	6.1	7.8
1,080	Bardon Hill	348	-	11.3	9.1
1,000	CCl Pipe Corp. Prel.	149	-	15.7	15.1
1,351	Conder Corp.	212	-	15.7	15.1
2,482	Deborah Surveys	45	-	6.0	13.3
6,236	Franklin	90	-	7.7	10.0
3,697	Frank Horsell Pr. 87	96	-	8.7	9.2
6,945	Frederick Partner	52	-	7.1	11.5
4,408	Gen. Corp.	121	-	6.0	8.9
1,000	Ind. Precursor Carter	75	-	7.3	9.7
2,300	Isia Corp. Prel.	176	-	15.7	15.0
1,000	Jacobs	151	-	15.7	15.0
1,454	James Burrough	225	+2	9.6	4.3
1,509	Robert Jenkins	148	-	10.0	13.5
1,500	Robinson	112	-	11.4	8.5
1,734	Torday & Carlisle	112	-	11.4	8.5
2,334	Unilock Holdings	26	-	14.6	1.8
1,000	Waldor	86	-	11.4	8.5
16,195	W. S. Yeates	266	-	17.1	6.5

U.S. \$50,000,000

Floating Rate Notes due 1989
 months to 30th November, 1983 the Notes
 ry an interest rate of $10\frac{1}{2}\%$ per annum.
Coupon values will be:
 Notes \$53.37 \$10,000 Notes \$533.75
 s Bank International Limited, London
 Agent Bank

every Monday

Only in the Financial Times

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OFFSHORE AND OVERSEAS

[illegible][illegible][illegible][illegible][illegible][illegible]

NOTES

Prices are in price under, otherwise indicated and those designated * with no prefix refer to U.S. dollars. Yields % shown in last column allow for all buying expenses. † Offered prices include all expenses. ‡ Today's prices. § Estimated. ¶ U.K. rates. ** Domestic Distribution free. *** Single premium insurance. **** Offered price includes all expenses, except agent's commission. † Offered price includes all expenses, if bought through managers. ‡ Premiums classed as Germany gross, § Surrendered, ¶ Yield before taxes, ** Estimated.

†† Only available to eligible investors.

OIL AND GAS—Continued

MINES—Continued						
Central African						
Dividends Paid	Stock	Price	Last at	Div Net	Cw	
Nov. 1934	May 1935	Falcon Rh. 50c	240	15	070c	0

		Australians			
		WACAN 20c.....	38		
		Balmoral Road 20c.....	19½		
		WBACK Hill Mtns.....	48		
		WBACK Corb.....	56½		
Nov.		WBACK 1 Km.....	148		
May	Apr.	WBACK 2 Km.....	51	112	65.42c
		WBACK 3 Km.....	91		
		WBACK 4 Km.....	24		
		WBACK 5 Km.....	21		
		WBACK 6 Km.....	17		
		WBACK 7 Km.....	18		
		WBACK 8 Km.....	17		
		WBACK 9 Km.....	17		
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		PERCENT RATES				
	Month	Stock	Price	Cost	Net	Cost
Nov	Jan	Per Thompson	100	100	20.25	
	Feb	Do Do Do	100	100	20.25	
	Mar	Barnett 100	388	115	4	2.2
	Apr	Do Do Do	388	115	4	2.2
	May	Do Do Do	388	115	4	2.2
	June	Do Do Do	388	115	4	2.2
	July	Do Do Do	388	115	4	2.2
	Aug	Do Do Do	388	115	4	2.2
	Sept	Do Do Do	388	115	4	2.2
	Oct	Do Do Do	388	115	4	2.2
	Nov	Do Do Do	388	115	4	2.2
	Dec	Do Do Do	388	115	4	2.2
	Jan	Do Do Do	388	115	4	2.2
	Feb	Do Do Do	388	115	4	2.2
	Mar	Do Do Do	388	115	4	2.2
	Apr	Do Do Do	388	115	4	2.2
	May	Do Do Do	388	115	4	2.2
	June	Do Do Do	388	115	4	2.2
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	Sept	Do Do Do	388	115	4	2.2
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	Nov	Do Do Do	388	115	4	2.2
	Dec	Do Do Do	388	115	4	2.2
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	Sept	Do Do Do	388	115	4	

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	June	May	April	March	February
Minerals	285	288	288	288	288
William C.	285	288	288	288	288
June	285	288	288	288	288

MINES					
Central Rand					
February	Durban Deep R1	221	212	—	—
Feb.	East Rand R1	210	—	—	—
Feb.	East Rand R2	210	210	210	210
Feb.	East Rand R3	210	210	210	210
Feb.	West Rand R1	210	210	210	210

Eastern Rand					
Nov.	Woods Bros 5c	212	212	212	212
Nov.	Woods Bros 10c	212	212	212	212
Mar.	East Rand R1	212	212	212	212
Feb.	East Rand R2	212	212	212	212
Feb.	East Rand R3	212	212	212	212
Nov.	Woods Bros 15c	212	212	212	212
Nov.	Woods Bros 20c	212	212	212	212
Nov.	Woods Bros 25c	212	212	212	212
Nov.	Woods Bros 30c	212	212	212	212
Nov.	Woods Bros 35c	212	212	212	212
Nov.	Woods Bros 40c	212	212	212	212
Nov.	Woods Bros 45c	212	212	212	212
Nov.	Woods Bros 50c	212	212	212	212
Nov.	Woods Bros 55c	212	212	212	212
Nov.	Woods Bros 60c	212	212	212	212
Nov.	Woods Bros 65c	212	212	212	212
Nov.	Woods Bros 70c	212	212	212	212
Nov.	Woods Bros 75c	212	212	212	212
Nov.	Woods Bros 80c	212	212	212	212
Nov.	Woods Bros 85c	212	212	212	212
Nov.	Woods Bros 90c	212	212	212	212
Nov.	Woods Bros 95c	212	212	212	212
Nov.	Woods Bros 100c	212	212	212	212

Member	Wife	Wife's Age	Age	Rank	Rate
Far West Rand					
Aug. Blyvoor 25c			1595	1112	10390c
Aug. Bultfont 1c			1304	1012	6540c
Aug. D. 20.50			1304	1012	6540c
Aug. Doornfontein RI			1173	112	1020c
Aug. Driefontein RI			1225	112	1020c
Dec. E. 20.50			1225	112	1020c
Aug. Elsburg RI			259	111	040c
Aug. Hartbeespoort 1c			259	111	040c
Aug. Kiblerfont 2c			259	111	040c
Aug. Kiblerfont RI			259	111	040c
Aug. Libram 1c			1273	112	1020c
Aug. Libram 2c			1273	112	1020c
Aug. Libram 3c			1273	112	1020c
Aug. Libram 4c			1273	112	1020c
Aug. Libram 5c			1273	112	1020c
Aug. Libram 6c			1273	112	1020c
Aug. Libram 7c			1273	112	1020c
Aug. Libram 8c			1273	112	1020c
Aug. Libram 9c			1273	112	1020c
Aug. Libram 10c			1273	112	1020c
Aug. Libram 11c			1273	112	1020c
Aug. Libram 12c			1273	112	1020c
Aug. Libram 13c			1273	112	1020c
Aug. Libram 14c			1273	112	1020c
Aug. Libram 15c			1273	112	1020c
Aug. Libram 16c			1273	112	1020c
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Aug. Libram 95c			1273	112	1020c
Aug. Libram 96c			1273	112	1020c
Aug. Libram 97c			1273	112	1020c
Aug. Libram 98c			1273	112	1020c
Aug. Libram 99c			1273	112	1020c
Aug. Libram 100c			1273	112	1020c
O.F.S.					
Sept. Free State D.O.			625	2112	04710c
Sept. E. 20.50			625	2112	04710c

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FINANCIAL TIMES SURVEY

Bahrain

Bahrain has been little affected so far by the drop in Gulf oil revenues. The national plan has been stretched from four to six years, but no major projects have been cancelled. The main topic of political discussion among Bahrainis is the prospect of the re-election of a National Assembly

Taking oil glut in its stride

By MICHAEL FIELD

"BAHRAINIS ought to be worried," remarked a Western banker who visited the state recently. "But you don't seem to meet anyone who says he's worrying." The view the banker had gathered in London was that the whole Gulf was being mightily squeezed by the decline in oil production and the cut in prices. Once in Bahrain, all that he had discovered was that the four-year plan was being stretched to six years and that there was some relaxed speculation about whether in the next few years some of the offshore banks might leave the island.

None of the Arabian oil states are as worried about the decline in their oil revenue as they seem to be from the capitals of the industrialised world. And Bahrain is probably less concerned than most. The state still draws about 70 per cent of its budget revenues from oil, but it is much less dependent than other oil producers on state spending for its prosperity.

In the course of the last 15 years the Government has encouraged the development of various private sector activities and state capitalist enterprises that have become important contributors to national income and employers of large numbers of Bahrainis.

Among these schemes have

been: offshore banks, exempt companies—regional concerns which are exempted from Bahraini majority ownership laws, the Aluminium Bahrain smelter, the pan-Arab Arabian Ship Repair Yard, and Gulf Air—which has its headquarters in Bahrain.

It is true that the Government is still a bigger employer than any of these enterprises and that the performance of most of the companies is influenced by the state of the other Gulf oil producers' economies.

The important point for Bahrain is that the existence of reasonably diverse industrial and financial sectors, dealing mainly with still buoyant private business in the other oil states, puts the economy at one

remove from feeling the direct recessionary effects of the oil glut.

For immediate practical purposes, the Government has to worry about the possible cancellation or postponement of some of the joint-Arab industrial projects planned for the island.

It also has to think of ways of increasing its non-oil revenues and cutting the levels of subsidies it gives to its people. Recently, it has raised the price of petrol at the pump and increased import duties on cars, furniture and alcohol.

For the long term there is talk of introducing income tax, which at present is viewed by Bahrainis, and by other Gulf Arabs, as a dangerously socialist and thoroughly un-Arabian institution.

The Bahraini Government knows that if it runs seriously short of money it will be helped by Kuwait and Saudi Arabia, by whose standards the island's requirements are insignificant.

Relaxed

Shaikh Khalifa bin Sulman al Khalifa, the Prime Minister, has visited both Riyadh and Kuwait in the last six weeks, partly, it is believed, to talk about his country's finances.

Politically, the prospects facing the Government look significantly better than they did two or three years ago.

The Bahrainis now feel less threatened by Iran, even though Tehran still harbours Hadi Mudarasi, an exiled Bahraini school master and preacher,

who is dedicated to overthrowing the rule of the Khalifa family. Mudarasi's Islamic Front for the Liberation of Bahrain organised the Shia Muslim coup d'état plot of December 1981, which was unmasked by the Bahraini authorities shortly before it was due to be put into effect.

The Government's more relaxed view of Tehran has been prompted by the failure of the Iranian air force to make much impact in the war with Iraq and by the bloodshed and chaos within Iran, which has diminished the allure of Islamic revolution in the eyes of young Bahrainis.

Equally important, the existence of the Gulf Co-operation Council, formed in 1980, gives Bahrain's rulers the feeling that the Gulf states are less likely to be subverted one by one by the Iranians.

It is significant that during the negotiations this month on the Gulf oil slick, produced by damaged Iranian wells, the Bahraini Government received a Kuwait-United Arab Emirates mission representing the whole GCC.

Tehran says that it regards the GCC as an imperialist-sponsored anti-Iranian alliance, which ought to learn to live with Iran as the dominant regional power, but in the case of the oil slick it seems prepared to treat with the Council states as a single unit.

Internally all has been quiet since the exposure of the 1981 plot.

The main subject of political debate within Bahrain is whether the Government is



This survey was written by Michael Field, Stewart Dalby, Mary Frings and Kathy Evans. Editorial production: Mike Smith. Pictures: Terry Kirk

likely to reintroduce a National Assembly.

Bahrain's only previous National Assembly sat between 1973 and 1975. Its members thought much more of impressing their constituents than of the broad national interest. They failed to pass a single piece of legislation and formed some unholy alliances in the process.

The Assembly members were one quarter left-wing radicals, nearly a quarter Shia religious

conservatives, and the rest independents—many of them lacking a good education or firm political principles.

Most of the leading Bahraini families did not field candidates in the Assembly elections. They have explained since that they were too busy with business, and, more interestingly, that they felt that it would be undignified and embarrassing to have attention focused on them during the campaign.

From the time that the

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Assembly was dissolved by an over-enthusiastic Government there has been speculation about when (or if) the Ruler would try another democratic experiment. The speculation has been increased in the last two years by the institution of appointed consultative councils in Qatar and Oman, the re-appointment of a council in the UAE, and the election of a new assembly in Kuwait.

It is not easy to find anyone in the ruling family or outside it who says openly that he is against the establishment of a new elected, or partly elected, assembly. In Bahrain, people feel that it is important that they be liberal.

The one thought that members of the Government are prepared to say worries them about an election is that it would encourage "outside interference" in Bahraini politics. They mean that Iran would be bound to foment the political passions of its Shia co-religionists on the island.

Those who are of a genuinely liberal persuasion add that some of the people at the top of the Government—notably Shaikh Khalifa bin Sulman—simply do not think that the creation of a new assembly is very important. They and several of the technocrat ministers outside the ruling family, believe that it would only hinder development.

However much private discussion there may be among Bahrainis, in the senior echelons of the ruling family there is apparently no serious consideration being given to a new assembly at present. Little weight is given to the fact that a large part of the Bahraini population wants an assembly and thinks that it would be beneficial.

It is widely remarked by Bahraini liberals in all sections of society that just as there may be a cost in electing a new assembly there may also be a cost in delaying.

For the moment the Government enjoys the widespread goodwill of its subjects. Shaikh Isa bin Sulman al Khalifa, the Ruler, is well-loved and respected. He is accessible and very generous. Although he is a man of very few words, who has a somewhat black and white view of the world, he is regarded as being perceptive and as having sound judgment on important issues.

The Ruler's brother, Khalifa bin Sulman, the Prime Minister and main power in the land, is an extremely tough and much more complicated character. Unlike Shaikh Isa he sees many sides to every problem. The Bahraini merchant class rather resent his business dealings conducted through the Unitaq Group; he is virtually the only member of the Al Khalifa with important commercial interests outside real estate. The ordinary people of the island respect and fear him.

Determination

The leading powers in the Khalifa family, who are Shaikh Isa, Shaikh Khalifa, Hamad bin Isa—the Crown Prince, and Mohammad bin Mubarak—the Foreign Minister, are helped in their determination of the Government's policy by the fact that Bahraini society is bound together by a national consensus that is rare in the Middle East.

Bahrainis know that their country has extremely small oil reserves by Gulf standards and that therefore it has to live off its wits. It is obvious from day-to-day conversation that they accept that to make a success of running a service economy—which is what Bahrain is—they must be well educated and must work hard.

Given these realities they seem to acknowledge that the Khalifa's style of Government and their economic policies during the last 20 years have been the right ones.

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The Industrial Bank of Kuwait	Kuwait	5.0%
Kuwait Real Estate Bank	Kuwait	5.0%
National Bank of Bahrain	Bahrain	5.0%
Gulf Insurance Company	Kuwait	4.0%
Kuwait Insurance Company	Kuwait	4.0%
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Head Office: Bahrain Branch Office: Singapore
March 1983

BAHRAIN II

Politics and Society

First steps taken on the road to trade unionism

THIS YEAR labour representatives from major industrial and service companies elected the first officially recognised General Committee for Bahrain Workers. No one is yet calling it a trade union, but in the words of one labour official: "Membership of the Arab Labour Organisation and the ILO will eventually get us there."

More than a dozen international labour conventions, on everything from freedom of association to pay and conditions of work, are awaiting ratification. In this context the move towards labour organisation seems to be a response to external obligations rather than to pressure from the shopfloor. At the moment, members of the Committee seem hardly able to believe their luck, and are certainly not in the mood to push it too far.

Bahrain has a long history of labour activism which at times has spilled over into violent confrontation with the authorities. In 1973, an industrial dispute at the two-armed Aluminium Bahrain (ALBA) smelter ended in police intervention, with several arrests and nearly 200 workers losing their jobs. It was one of a series of strikes around the island before the dissolution of the National Assembly in 1975.

At ALBA, what appeared on the surface was the probably legitimate grievance of a group of welders in the workshops but this was not necessarily at the root of the problem. People on the plant at the time say that PFLAG, the Aden-backed Popular Front for the Liberation of the Arabian Gulf, had a cell at the smelter and was demanding official recognition for its own candidates to form a trade union.

Recognition was withheld but the welders are said to have refused to settle their grievance through any other channel. Other workers downed tools in sympathy and occupied the canteen. The situation turned very ugly. Strikers threatened to throw anyone who interfered into the pots of molten aluminium.

At this point armed police were called in and the strikers were ejected by force. In order to keep the smelter in production, the management offered double or even triple wages to non-militant employees who wanted to work and support for the union began to melt away. Many of the militants who lost their jobs were reinstated after a suitable lapse of time.

It was a frightening episode which some people, with hindsight, believe was mishandled from the start. The smelter was undergoing such severe technical teething problems that no one had paid much attention to labour relations.

A number of lessons were learned. By 1976 there was a new and more comprehensive Labour Law to replace the 1955 Labour Ordinance, which was based on old British colonial practices. There was also a Social Security Law and at ALBA representatives of each department were elected to a

Plant Council, which had direct access to the chief executive.

In a series of seminars for employers in the later 1970, the then Minister of Labour, Shaikh Isa bin Mohammad Al Khalifa, may have spelled out the implications of the new law more clearly than the conservative establishment would have liked. His resignation from office came very shortly after the visit to Bahrain in the spring of 1980 of a delegation from the International Federation of Arab Trade Unions, which in the past had refused to recognise any labour organisation in Bahrain, except under the terms of a fully-fledged union law.

Everyone stoutly denied that the Minister's return to what is now a very flourishing legal system, and his successor, Shaikh Khalifa bin Sulman bin Mohamed Al Khalifa, soldiered determinedly on.

There was not only suspicion from the reactionaries, there was apathy from industry. When the directors of some

Members of the Bahrain Workers' Committee can hardly believe their luck and are certainly not in the mood to push it too far.

companies—namely Gulf Air, the Arabian Ship Repair Yard (ASRY)—showed no sign of taking up the option of establishing joint consultative committees between management and labour, the Minister issued an order in July 1981 designating eight companies—the Bahrain Petroleum Company, Alba, Bahrain Telecommunications, Gulf Air, ASRY, Bahrain Airport Services, Bahrain Shipway Company and BP Arabian Agencies—in which joint committees were to be compulsory.

The discovery in December 1981 of an Iranian-inspired plot to overthrow the regime could well have put a damper on further progress, but surprisingly it did not.

Most of the designated companies had had some previous experience of labour organisation, although the system varied. ALBA's was on the British pattern, with direct representation from the shop floor. Bape's was American-style, with supervisors acting as a channel of communication between workers and management.

The government-approved system was somewhere in the middle, with five appointed management representatives and five elected workers forming a joint committee to "co-operate in resolving disputes, securing improved social conditions for workers, determining wages, organising social services, increasing productivity and in any other matter of mutual interest to the two parties."

In the case of disputes which cannot be settled by negotiation, the Labour Law provides for mediation by the Ministry of Labour and, in the last resort, recourse to arbitration by the civil courts. The Penal Code, but not the Labour Law, specifically rules out the right to strike.

To qualify as a candidate for election as a worker-representative, an employee must be at least 25 and not have been convicted of any felony, misdemeanour or dishonourable conduct within the previous five years (or whatever lesser period had been prescribed for rehabilitation).

Additionally, he or she should "not have been engaged in any activity prejudicial to the internal or external security of the state, the national unity of the nation or the national interest of the state." The arbiter in this case is the Ministry of the Interior.

This clause would appear to be open to wide interpretation, and could be used to weed out any prospective candidate with the courage of his slightly non-conformist convictions.

Before the elections to the joint-committees last year, one or two candidates were rejected, but not without good reason, in the view of impartial labour officials.

One employer said he agreed wholeheartedly with the authorities' judgement. "It was necessary to prevent a minority taking control," he said. Others, however, think that the choice would have been better left to the good sense of the voters.

In any event, elections were held by secret ballot through out 1982, at carefully staggered intervals, and the turnout in most companies was around 80 per cent.

Since their election, the joint consultative committees have been mainly engaged in drawing up their constitutions for approval by the Ministry of Labour. These documents echo the Labour Law in stressing duties as well as rights, "guided by custom, fairness and seeking the public good, bearing in mind the social and economic position of the company."

One states that candidates for election should "not engage in propaganda in any form" but goes on to assure members that they may "express their views in meetings of the joint committee freely and without fear of adversely affecting their employment or their careers with the company, provided they always act in good faith."

Members are paid overtime for attendance at meetings outside their normal working hours, together with reasonable travelling expenses.

The duties of the joint committee members who are elected to the 11-man General Committee for Bahrain Workers are more onerous, since they may be called upon not only to attend international labour conferences as part of tripartite delegations representing gov-

ernment, employers and labour, but to sit on labour services and welfare committees and on social security and training boards. One member is already complaining that he is missing out on career development courses, another that he has a lot less time for golf.

The General Committee is exclusively Bahraini: in the

The degree of autonomy permitted to the General Committee is not great. Every step it takes must be approved by the Ministry of Labour.

words of the Minister of Labour, "I could not take an Indian and a Filipino with me to speak for Bahraini labour at the ILO."

The degree of autonomy permitted to the General Committee is not great. Every step it takes must be approved by the Ministry of Labour. It is barred from any political affiliation and from accepting any outside financial support, unless authorised to do so. The Minister may dissolve it if it "makes any resolution or acts in any way contrary to the internal or external security of the state or which may disturb national unity or the interests of the state."

Every registered club and society in Bahrain is supported by Government funds, but oddly enough the size of the General Committee's budget depends on how many employers are fined by the courts for contravention of the Labour Law; it is to be allocated 25 per cent of the yield from this source.

Members would like to have their own headquarters, to relieve them of the necessity of meeting on Ministry of Labour premises. A degree of financial independence would be helpful, and subscriptions from workers or a subsidy from the social security fund are among the ideas to be discussed with the Ministry. There seems to be no question of the members going back to their constituents for an indication of whether workers would willingly pay monthly dues. At the moment, the General Committee for Bahrain Workers is a very pale imitation of a national labour union. One problem is that it represents a minority of the Bahraini workforce, not only because there are other private sector companies besides the designated eight, but because the Government is the biggest employer and the civil service is outside the scope of the Labour Law.

However, the proliferation of safeguards against any kind of political militancy may be necessary. Neither the Government nor the labour movement (in so far as one exists) can afford another failure.

Mary Frings

Kathy Evans on moves to improve education

Instilling the love to learn

OVER THE next eight or nine years, Bahrain's 24,000 primary school pupils will witness fundamental changes in the style of education they receive. Bahrain's Education Minister, Dr Ali Fakhroo wants to put a breath of fresh air into the island's classrooms.

"Until now, the education in our schools emphasised the ability to memorise by rote. There was little freedom of expression within the class, the text books were narrow and there was little variety or choice either for the student or the teacher," he says. Now, children will learn to develop themselves. "They will learn to love to learn," Dr Fakhroo says.

This reorientation of Bahrain's education system is necessary, he believes, to put back the stimulus into learning. The primary school system was suffering a drop-out rate of 18 to 20 per cent a year and failures were being left by the wayside instead of being tackled. He hopes to get the drop-out rate down to one or two per cent a year, but just in case results are not that rapid, legislation is being drawn up to introduce compulsory education for all children between the years of six and 16.

Transformation

The transformation is going to take some years. Dr Fakhroo explains, because the new style teaching methods will be introduced by Bahraini teachers, instead of Egyptians. The higher institutes of education are now producing around 200 teachers a year, so that the numbers of foreign teachers can be reduced.

Recruiting teachers, particularly male staff, is one of the Education Ministry's biggest problems. The traditional

respect shown to a teacher or learned man in the Arab world—even the word teacher—"ustaz"—is used as an honorary title for anyone worthy of respect, and is rapidly being replaced by respect for money and success in business. "The teacher here has lost a lot of prestige lately and this is a reflection of what is happening all over the world," says Dr Fakhroo.

In order to recreate the prestige the Education Minister is hoping to make the career of teaching an attractive one financially, and stimulating on an intellectual basis. The Ministry is therefore moving to decentralize decision-making, involve teaching staff more in deciding the curricula and provide periodic refresher courses so that a teacher's education does not come to a full stop with graduation.

All these measures in the early stages of education are vital if higher education is to have any value. "You can't have a good university without having an equally good primary system," declares Dr Fakhroo.

A good educational structure is vital to Bahrain, for without a skilled labour force the island cannot function as a service and industrial centre. "We only have human beings in Bahrain. We don't have much oil or much cash, so if we don't build our human structure, we have nothing." In recognition of this paucity of financial assets the six Gulf Cooperation Council states and Iraq have decided to locate one Gulf University on the island.

The Arabian Gulf University will be designed as a post-graduate university specialising in the sciences, offering research facilities and promoting a standard of excellence not yet seen in the area. The Gulf region has 17 universities, but

academic standards vary. The Bahraini institutions, in contrast, attempt to operate as a kind of Think Tank on the region's problems and needed technology.

Among the courses being offered are desert sciences, marine biology, and medicine. The university will have 5,000 students, 70 per cent of them doing post-graduate studies.

The exact style of the university has yet to be decided by the Arabian education ministers, though a number of conservative states are known to be concerned that the campus and its students should live and study in accordance with Islamic ideas.

Segregation

The ministers have already decided that the university should segregate men and women students in the classroom and library. Such policies contrast sharply with style of Bahrain's existing higher education institutions, such as the Gulf Polytechnic, which is co-educational.

Both the public and the private sectors are thirsting for the students and graduates who emerge from the school system, the technical college and the university.

A recent study by the Ministry of Labour and Social Affairs showed that 75 per cent of the new jobs created in the boom of the last few years have been filled by foreigners.

Bahrainis are now only 41.5 per cent of the total labour force in Bahrain and, unless restrictions are placed on immigration and development overall, the figure will go down further.

This dilemma is as well appreciated by members of the Bahraini government as by members of governments else-

where in the Gulf. Already the cabinet is debating economic growth rates for the island. Some ministers are arguing for a 6 per cent growth, while others are pushing for between three and 5 per cent so that the rate of growth in foreign workers can be kept at manageable levels.

Opinion is now veering towards the low side, for Labour Ministry officials have warned that there will be no improvement in the ratio unless a slower rate of growth is decided upon. With a 3 per cent growth in the economy, the percentage of Bahrainis goes up from its present 41.5 per cent to 53 per cent in 1991.

Natural population growth and the predominance of young people in the population will fill a minimum of 4,000 new jobs a year. Bahraini male employment is expected to rise from 49,800 in 1981 to about 79,000 in 1991.

Predicting the future employment of Bahraini women is a little more difficult. In 1971 over 4 per cent of all women were in the labour force, but 10 years later this figure had more than tripled. In the age range of 20 to 24 over 20 per cent of Bahraini women are already working.

At the moment the shortage of skilled manpower has placed a premium on Bahraini employees, and most private sector firms spend a lot of time pursuing suitable candidates.

Meanwhile the influx of foreign workers continues. Last year Bahrain imported over 33,000 foreign labourers, just marginally above 1981's figures and way up on the 13,685 brought in in 1979. Out of the 33,000 imported last year, over 20,000 were Indians, followed by Asians such as Thais and Koreans.

Kathy Evans

مكتبة الامم المتحدة

Politics and Society

BAHRAIN III

Shia relations with Sunnis uneasy but stable

EIGHTEEN MONTHS ago, in December 1981, a group of Bahraini youths was discovered to have hatched a plot to assassinate their ruler, Shaikh Isa, and stage a coup d'état.

The conspirators were Bahraini Shias, members of the schismatic and mystical branch of Islam that is associated in the most of the Muslim world with the poor and down-trodden. They were assisted by a few other Arabian Shias, including some Saudis and Omanis. They had been trained and armed by the Tehran-sponsored Islamic Front for the Liberation of Bahrain and had been sent to the island from Iran.

In Bahrain they were able to use safe houses, but they received little active support from the resident Shia community.

The youths were arrested, it is believed, after a tip-off from the Dubai police, who had noticed that some of their number en route from Iran had forged entry stamps in their passports. A trial in a more or less closed court was held in the orthodox Sunni Muslim village of Jau in the sparsely inhabited south-east of the island.

None of the 72 who were convicted was executed. Two were given life sentences and the rest shorter prison terms.

The plot was serious by any standards, but it was made particularly worrying for the regime by the fact that in contrast to all the other Arabian oil states Bahrain has a Shia majority.

The Government ensures, when it holds a census, that it makes no classification of its people by region, but unofficially the Shia component among Bahraini nationals is thought to be about 60 per cent. The Shia population is multiplying faster than the Sunnis. This is causing the ruling Khalifa family to offer free housing to some of the mainland tribes to encourage them to settle in Bahrain.

Confusion

There is no infallible way of telling which of the Bahrainis are Shia and which Sunni. Many of the Shias wear their ghutras, their head-dresses, bound around their heads in loose turbans. This shape is associated with the turbans worn by Shia divines. To confuse matters, however, there are as many Shias who wear Western dress or the conventional Arabian ghutra and agal

(black head band) arrangement, and a few of the Sunnis seem to have adopted the turban head-dress style.

A better way to guess a person's religion in Bahrain is to discover in which village or in which part of Manama he lives. The main areas of Shia settlement are the villages of the north coast of the island, including Sanabis and Barbar (but excluding Budiyah), Sitra Island in the north-east, and Ali in the north centre.

In Manama itself, the An Naim quarter in the west of the town and the large central, inland area between the "gold street" and the police fort are Shia.

The more or less equal Sunni-Shia divide has not always been a feature of the Bahraini population. It has emerged gradually since the Al-Khalifa conquered the island in the late 18th century.

When the leaders of the Khalifa family evicted the Persian governor of Bahrain exactly 200 years ago it seems that the population of the island was composed almost entirely of Shias, known as Baharna. It is a striking fact that today it seems to be impossible to find any Sunni family in Bahrain that claims to have been on the island before the Al-Khalifa.

The Khalifas arrived with a number of tribal allies. These included the ancestors of the present large families of Jalahima and Manai, who are originally from northern Arabia. Dossari, which is part of the Dawasir tribe of south-central Arabia, and Naim, from the Qatar peninsula.

In modern Bahraini society these families form what is known as the tribal element. They are in any sense equal to the Khalifas—they are as much retainers as friends—but the Khalifas do sometimes take brides from their ranks.

Much of the land held by these families has come ultimately from the Shia population. Shia land was lost through a practice of confiscation when taxes were not paid, or through outright seizure.

This process, and the fact that the Khalifas had originally to fight for their island, made the foundation of the Bahraini state very different from the foundation of the other Gulf states. The ruling families of Kuwait, Qatar, Abu Dhabi and Dubai were either chosen as the leaders of their communities or established more or less new

settlements. The Khalifas imposed their rule on an island that was already inhabited.

The division between Sunnis and Shias on the island and the presence of a number of other distinct communities has made Bahrain a turbulent society by the normal standards of the Gulf.

It is important that this should be understood by foreign investors assessing the island as a political risk. The reason is not that the investors ought to avoid committing themselves to the island—there is no special cause for thinking that the present regime is insecure—but that they should not be frightened, as some of them have been recently, by demonstrations, minor riots and plots. The disturbances of the last few years are nothing new.

In the early decades of this century violence between Sunnis and Shias was endemic.

Importance

In the 1890s there began a long period of harmony in community relations—partly because the British had stopped the seizure of Shia land by the Sunnis.

Westerners and the more technocratic Bahrainis assumed that this community was a dying concept on the island, though one well informed Westerner remarked recently that they cannot have been looking sufficiently closely at Bahraini society. Not enough importance was attached to the fact that in the elections of 1973 for Bahrain's short-lived national assembly most of the vote split on community lines.

The division between Sunnis and Shias re-emerged clearly in 1979, when Ayatollah Khomeini came to power in Iran, which is a predominantly Shia country.

Since the Iranian revolution the Shias of Bahrain have looked to Khomeini as their Imam, their leader. The Ayatollah is regarded primarily as a religious figure. Unlike the Sunnis, who emphasise the direct personal relationship between every man and God, the Shias have always looked for holy men to lead them and have vested their leaders with spiritual authority.

To some extent the Bahraini Shias also look to Khomeini as a political leader.

From the time he came to power Khomeini urged the people of Qatif and particularly the Shias of Bahrain and

the Saudi Eastern Province—to rise up and overthrow their rulers. In the summer of 1979 one of his speeches triggered riots over several days in the Western part of Manama.

A little later there were further disturbances during the emotional month of Moharram, when the Shias commemorate their early martyr by singing religious plays and processions, with back flagellants and chest busters.

There was more ferment when a Shia youth died in police custody. His corpse was spirited away from the morgue, paraded through part of the town and displayed in a mutilated state to spectators in a Shia cemetery. There was some question as to whether the wounds had been incurred before or after death.

In December 1981, a year after these disturbances there occurred the infamous coup d'état plot.

Assassinations have been made much more conscious of the Sunni-Shia than they were five years ago, it cannot be said that relations between the two communities are bad at present.

There are close Sunni-Shia friendships and business partnerships, and the leading Shia families—including Arrayedh, Alawi and Mudalifa—have good relations with many of the senior members of the Al Khalifa. The Ruler, Shaikh Isa bin Sulman, and his brother, the Prime Minister, Shaikh Khalifa, have often attended weddings and funerals of important Shia families.

The Khalifa family's view of the Shias as a whole is less friendly; as devout Sunnis they cannot regard the Shias as heretics.

In a few cases there have been Sunni-Shia marriages—but invariably these unions have involved Sunni families known for their emancipated views.

Yusuf Suhrabi, the Minister of Development and Industry, and Ali Fakhrro, the new Minister of Education, have both married Shias. The brother of Jassim Murad, who was one of the most outspoken deputies in the 1973-75 Assembly, is about to marry a Shia.

The Bahraini Government is the only regime in Arabia to tolerate the Shias' gaudy and emotional Moharram processions. Before the Iranian revolution caused governments to monitor the movements of the Shia populations more carefully large numbers of Saudi Shias from the oases of Qatif and Hassa used to cross to Bahrain

during Moharram to participate in the rituals.

In the Bahrain Government at present there are five Shia ministers: Jawad Arrayedh, the Minister of Health; Husain Baharna, the Minister of State for Legal Affairs; Habib Qassim, the Minister of Commerce and Agriculture; Majid Jishi, the Minister of Works, Power and Water; and Ibrahim Humaidan, the Minister of Transport and Communications.

The Shias, however, say that the Sunnis favour their own people instinctively when they are allocating jobs. There is no question that Shias tend to congregate in ministries and corporations that are headed by fellow Shias or by people

sympathetic to them. Notable examples of such institutions at present are the Ministry of Health and the Bahrain Telecommunications Company.

The Khalifa family's success in running Bahrain's development and giving all of its subjects reasonable prosperity has done much to take the edge off Shia bitterness.

"I am impressed by the people at the top of the government," a young Shia declared recently. He then added: "It is the system, the people around Shaikh Isa, Shaikh Khalifa and Shaikh Hamad bin Isa (the Crown Prince) who make life difficult for us."

Michael Field



Bahraini society is composed of eight or nine separate communities. The island also has a large population of short-term expatriate residents. Here the different peoples come together in the Manama souk.

An island of mixed communities

BAHRAIN IS a polyglot state, both religiously and racially. Leaving aside the temporary immigrants of the past 10 years, there are at least eight or nine distinct communities on the island.

They include the numerous members of the ruling Khalifa family, the Arabian tribes, which arrived with the Khalifas, and the Shias. These communities, which were all present at the island at the beginning of the last century, are described in the article on the Shias in this survey.

In the years after the Khalifas' arrival in the late eighteenth century numerous other settlers came to Bahrain. Many of these were hawala, Sunni (orthodox Muslim) Arabs who were originally from Arabia and who had settled in large numbers on the Iranian coast. Modern Bahrainis of hawala origin are the well known trading families of Kanoo and Almoayed, which share common ancestors, and the Fakhrro, who have members in trade and government.

A few other settlers came directly from Arabia—notable examples being the families of Zayani, Mattar, Mussalam and Isah—now a long established family on Bid Island, and Bin Hindi—a Muharrag Island family which used to be famous for pearl trading. The Zayanis, who like the

others are of Nejd (central Arabian) blood, came from a village near the Red Sea coast. They now own one of the biggest Bahraini merchant houses, well known for the Rolls-Royce agency.

There used to be a much bigger number of Nejdis in Bahrain—though most of them had not lived on the islands for as long as the Zayanis or Mussalamas. They included such names as Zamil and Algaosab, which are now famous in Saudi Arabia. They made up a distinct community of traders, importing goods through Bahrain for sale on the mainland. Most members of the Nejd families returned to the mainland in the 1950s, when Saudi Arabia began to develop as an oil state.

Prosperous

In the 19th century there gradually developed a significant Persian community in Bahrain, with both Sunni and Shia members. The Sunnis, who were mostly from the eastern Zagros mountains around Kerman, included the ancestors of the present families of Bastaki, Awadi, Mustapha Abdlatif, Khuraji and Isah—one of whose members is a major shareholder in the Hilton Hotel.

The Shias, mostly from the south-west of Iran, included the Kazerounis, the Allrezas,

whom it is assumed were once Shia although they are now undoubtedly Sunni, and the Dawanis, who own the Al Jazira Cold Store, the biggest establishment of its type in Bahrain.

Some of the Persians are now prosperous merchants and landowners, others continue in more menial jobs, such as baking and labouring, which are regarded as being traditionally Persian.

The long-standing Persian immigrants have Bahraini passports and are regarded as Bahrainis, even though many of them still speak Farsi at home.

In the lower echelons of society the Bahraini Persians mix with the numerous short-term Persian immigrants—also labourers and bakers in most cases—who travel quite regularly between Arabia and Iran.

At about the same time as the Persians came to Bahrain an Indian community began to appear on the island. These people were merchants who had dealt with the Bahraini pearl traders in Bombay and were drawn to the island by the prospect of buying pearls locally or importing food or other basic supplies to sell to the pearling dhows.

Further Indians were brought in to work as clerks and minor officials when the Bahrain Government began to be modernised by Sir Charles

Belgrave in the 1930s and 1940s.

The Indians have been made welcome in Bahrain—they have their own temples and burning grounds for their dead. Indians living in less tolerant Arabian states come to Bahrain to be married.

Well known

The Indians do not mix with the other communities and are not regarded quite as being Bahrainis. Only the earlier Indian arrivals carry Bahraini passports.

The smallest and least conspicuous of the Bahraini communities are the Jews, whose ancestors may have been established on the island for centuries.

Before 1948 the Jewish community was quite significant in numbers but it is now reduced to a mere handful of families. Its best-known members are Daoud and Azra Nozoo: Daoud runs the family money exchanging business, the Bahrain Finance Company, and Azra is the general manager of the publicly-owned cinema company. In keeping with the Bahraini tradition of tolerance the Jews are allowed their own synagogue and cemetery.

M. F.

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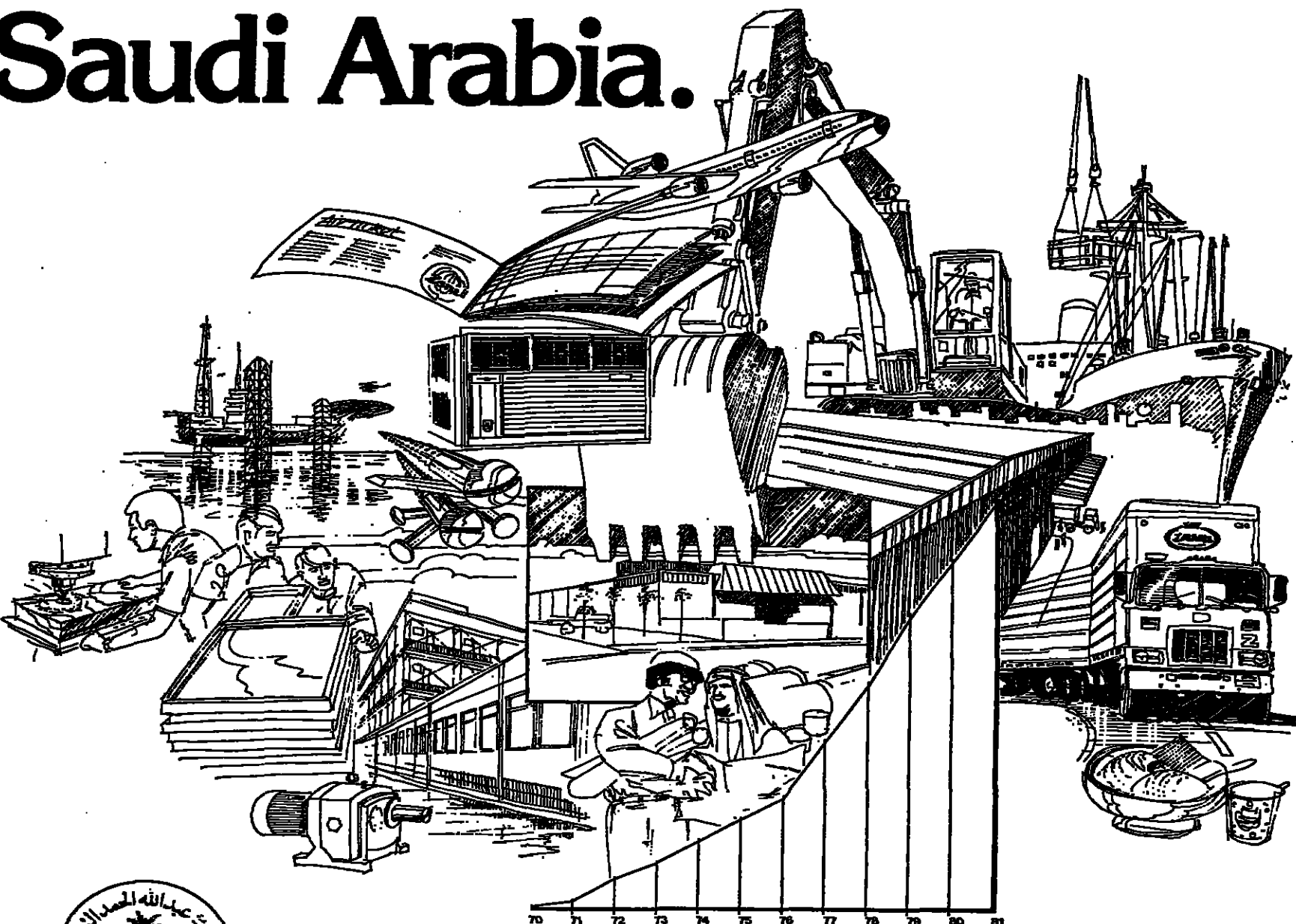
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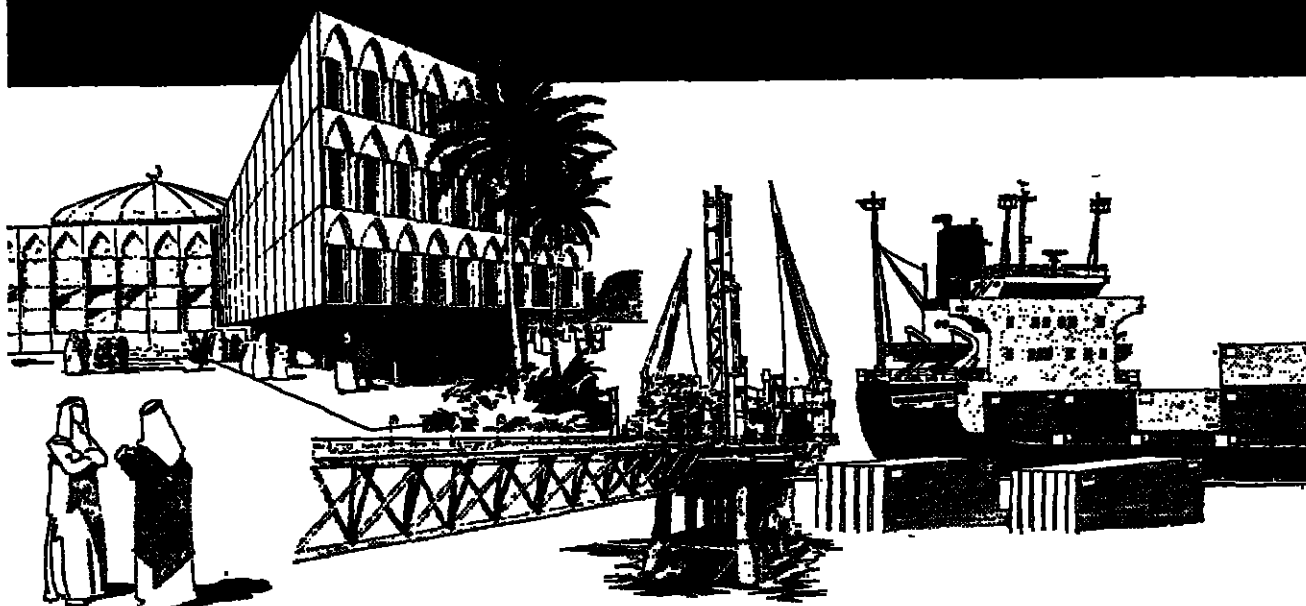
Statement of Condition at 31st December 1982

	1982		1981	
	BD MM	US \$ MM	BD MM	US \$ MM
ASSETS				
Cash and Due from Banks	16.90	50.40	16.76	44.63
Reserve Deposited with Bahrain Monetary Agency	5.32	14.19	5.56	14.81
Time Deposits - Banks	210.21	560.56	176.66	470.47
Loans, Advances and Overdrafts	179.99	479.92	158.24	421.41
Other Assets	9.64	25.71	10.22	27.22
Investments	424.06	1130.83	367.44	978.54
Fixed Assets	15.85	40.58	17.43	46.42
Total Assets	444.46	1185.23	390.08	1038.83
Contra Accounts	189.58	506.61	61.40	163.52
Total Footings	634.44	1691.84	451.48	1202.35
LIABILITIES				
Current, Saving and Other Demand Accounts	76.67	204.45	67.60	180.03
Due to Banks on Current Account	8.47	22.59	7.75	20.64
Time Deposits - Banks	91.89	245.04	98.89	263.36
— Non - Banks	199.38	531.68	164.85	439.01
Directors' Remuneration (Subject to Shareholders' Approval)	0.06	0.16	0.06	0.16
Dividend Proposed (Subject to Shareholders' Approval)	4.20	11.20	1.40	3.73
Other Liabilities	11.25	30.00	12.50	33.28
TOTAL LIABILITIES	391.82	1045.12	353.05	940.21
SHAREHOLDERS' EQUITY				
Share Capital	21.00	56.00	14.00	37.28
Reserves	31.54	84.11	23.03	61.34
TOTAL SHAREHOLDERS' EQUITY	52.54	140.11	37.03	98.62
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	444.46	1185.23	390.08	1038.83
CONTRA ACCOUNTS	189.58	506.61	61.40	163.52
TOTAL FOOTINGS	634.44	1691.84	451.48	1202.35

Statement of Income, Expense and Appropriations for the year ended 31st December 1982

	1982		1981	
	BD MM	US \$ MM	BD MM	US \$ MM
INCOME				
Interest Earned	56.33	150.80	47.27	125.89
Less: Interest Expense	41.45	110.53	37.34	99.45
Net Interest Income	14.88	40.27	9.93	26.44
Other Income	4.20	11.20	2.56	6.82
TOTAL INCOME	19.08	51.47	12.49	33.26
EXPENSE				
Staff Expense	3.53	9.45	2.56	6.82
Other Items	4.36	11.53	3.11	8.28
TOTAL EXPENSE	7.89	21.04	5.67	15.10
Net Income Before Exceptional Income	11.19	30.43	6.82	18.16
Exceptional Income	8.93	25.01	—	—
NET INCOME AFTER EXCEPTIONAL INCOME	20.12	55.44	6.82	18.16

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BAHRAIN IV

Outlook bright despite the oil slick threat

IN BAHRAIN just now talk about the oil slick somewhere in the Gulf seems to dominate all conversations about the economy. Although no one appears actually to know very much about it, dire scenarios are outlined about the effects that this slick—which could be 100 miles long, or 25 miles long and three feet deep or three inches deep—could have.

It could destroy the fishing industry to begin with, it could pose enormous hazards to shipping.

Without pushing the metaphor too far, the problems hovering over the island's economy are little like the oil slick. If oil prices drop, if Saudi Arabia, in particular, does not pump enough oil for Bahrain's refinery, if Saudi Arabia and other main oil producers in the Gulf slash their spending programmes, and if the world price for aluminium does not pick up, then Bahrain could be in for a period of deflation and tough restraint.

Ticking over

Yet, five months into 1983, the economy appears to still be ticking over nicely enough any dangers remain potential rather than actual. The economy is growing at between 4 and 5 per cent compared with an 8 per cent growth in GNP in real terms last year. Inflation is certainly in double figures (although because of the strange mix of foodstuffs, largely imported and partly controlled, and of consumer goods in the CPI basket it is difficult to pin down an exact figure). But none of the major infrastructural and diversion projects, like the \$450m causeway link to Saudi Arabia, the petrochemical plant and the iron steel works have had to be postponed, or abandoned.

Unlike some other Gulf economies Bahrain has never been a major oil producer and has never accumulated huge reserves. Once it was a trade entrepot, and now, using its modest oil and gas, it has diversified into some industry, and tried to become a services entrepot. Oil and hydrocarbons account for roughly one third of GDP. Manufacturing and industry, if one includes the aluminium smelter, and the refinery, around another third, and services the remaining

third or so. Services do not mean an inflated government bureaucracy alone, but also include financial services. The offshore banking industry, for example, probably accounts for 2 per cent of the workforce, given the stringent conditions around employing Bahrainis, and financial services altogether probably account for some 10 per cent of GDP.

However, oil and hydrocarbons do account for over 80 per cent of exports (although the trade picture is complicated because oil for the refinery accounts for just over half of imports). Oil and gas account for three quarters of government income, and government expenditure is responsible for two-thirds of Bahrain's GDP. The gap in government revenues left after oil income is filled by customs and excises duties, and grants and loans from Arab neighbours. Saudi Arabia, Kuwait and the UAE between them last year contributed BD 62m (\$17m) to the Bahrain budget in grants and loans. Usually the budget balances and it is not unknown for there to be surpluses.

Bahrain emerged from 1982 with its books looking in good enough order. Total exports were BD 1.8bn (\$3.4bn) while total imports at BD 1.2bn were just slightly lower. This was a deterioration over 1981, but a respectable enough performance, given that the aluminium smelter made a loss of \$22m despite higher output.

The Government's budget seems to have been underpinned. Budgeted expenditures and revenues were put at BD 560m of which BD 262m was classified as development expenditure. However, only BD 175m was actually disbursed. Final figures for recurrent expenditure had not come through at the time of writing, but there were hopes that this too might be underpinned.

This could be just as well, since for 1983, Bahrain could have a deficit. Preliminary figures for 1983 budgeting are that the Government will spend BD 645m while gaining in revenues, hopefully BD 645m. As Mr Habib Ahmed Kassem, the Minister of Commerce and Agriculture, puts it "this year we could see a deficit, but you must remember that these figures are only estimates. Before we had a deficit last year and so there will be a carry-over of some kind. We should end up more or less square."

On the revenue side, as far as the Government budget is

concerned, the main uncertainty is income from the Abu Safa field.

Bahrain's own oil is running out. Its field is producing at the rate of 43,000 barrels per day, but this will diminish at between some 3 per cent and 5 per cent a year and in 20 years reserves will be exhausted. Hopes of finding new fields are not high because the search has already been extensive. However, Bahrain also gets income from a 50 per cent interest in the Abu Safa field which Saudi Arabia controls and runs. Bahrain has little say in output and receives a monthly check.

Marginal rise

In 1983 its oil revenues broke down as follows: net crude revenues BD 396m (of which Abu Safa contributed BD 227m), natural gas revenues BD 8m, and oil tax BD 12m, giving a total of BD 416.5m.

In 1983 net crude revenues are put at BD 478m, of which BD 322m should come from Abu Safa. Natural gas revenues are scheduled to rise marginally to BD 9m and oil taxes are estimated to remain the same at BD 12.7m.

In other words, while Bahrain's own oil income is scheduled to drop it is an anticipated one-third increase income from the Abu Safa field which should provide the 17 per cent rise in overall oil revenues to BD 498m.

Oil revenues amount to 77 per cent of total income. The government recently imposed steep rises in excise duties on fuel and alcohol, but these will not make much difference to overall government income.

There must be something of a question-mark over the Abu Safa income, since Saudi Arabia has reduced its overall production considerably. The feeling in Bahrain is that the Saudis will want to keep production up at Abu Safa if possible, but there are no guarantees.

Similar doubts linger over the refinery. This has a capacity of 250,000 barrels per day, even at slightly below 100,000 per day, it has been doing rather better than this recently, with levels of 175,000 barrels per day being seen. Since most of the oil for refining and re-export is supplied by, or bought from, the Saudis there must be doubts about the level of supplies.

For the moment, however, both as far as Abu Safa is concerned, and the refinery, every-

thing seems set fair. As a resource, there is the carry over from last year's budget. This almost certainly means that any deflation this year, or postponement of major infrastructure projects will not be too severe. These budget figures (1983 and 1984) are, in any event, part of the four-year 1982-85 development plan. This calls for expenditure over the period of BD 1.4bn. Around two-thirds of this is scheduled to come from the budget. The \$450m to be spent on the causeway is due to come totally from the Saudis. One-third should be spent on water and power projects.

Because the expenditure and revenue estimates are spread over four years there is a great deal of manoeuvre for what a senior advisor to the ministry of finance, calls "stretching." "We have a four-year plan at the moment, but that could easily become a six year. I do not see any of the major projects being jeopardised by the oil situation. The schools and roads programme, and things like that might suffer, but none of the big stuff," said the senior advisor.

Slower gear

In short, Bahrain is going into a slower gear this year without yet shedding any baggage or commitments. In practical terms the construction industry might go into a lull, but this may be no bad thing in that rents which can reach something like \$4,000 a month for a modest villa could level off, and there will be a lull in hotel building. In the deflation of 1978-79 it was hotels which suffered with one or two having to be pulled out by the government. Bahrain has, in any event, probably, more hotels than it needs.

Business for Bahrain's active 72 offshore banking units will also probably slow down this year and there could possibly be some departures. This is not only because of the situation in Saudi Arabia, with its lower expenditure, but also because of the world debt situation.

In the longer term the outlook is bright despite the dwindling oil. The diversification should continue. Other important projects like the setting up of the Gulf University, and an increase in defence expenditure which the possible help of the Gulf Cooperation Council should ensure that the economy stays buoyant.

Mary Frings

How the island's energy sector is organised

FOR 45 years after oil was discovered in Bahrain in 1932, the Bahrain Petroleum Company (Bapco) was the only company. It was never necessary to say which company, Bapco held the exploration rights for the onshore and most of the offshore concession; it produced, refined and marketed Bahrain's oil; it provided a wide range of services; and it was the only major employer of local labour. A surprising number of today's young technocrats, not only in industry but in government, banking and the professions, graduated from its apprenticeship scheme.

The Bahrain Petroleum Company Limited, a 100 per cent Caltex subsidiary, came to an end in 1981, with the formation of the Bahrain Petroleum Company B.S.C. (Closed) as a Government - Caltex joint venture. This company is still known as Bapco but its activities are confined to refining oil for its shareholders and maintaining facilities for its 4,200 employees. Half a dozen other companies are now part of the oil industry, guided by the Supreme Oil Council under the chairmanship of the Prime Minister.

One of these is the Bahrain National Oil Company (Banoco), which was established in 1976 as a wholly-owned government company, and gradually increased its role from local marketing to full management of the oilfield. The state acquired full ownership of its oil production facilities in December 1979. The Petroleum Marketing Unit, a separate entity handling international marketing of government oil products and reporting directly to the Ministry of Development, was merged with Banoco a few weeks ago, and the airport fuelling facility will be taken over from BP and Caltex by the end of the year—although some accommodation may be made for certain pro-

ducts. International jet fuel sales currently amount to over 10,000 b/d.

Production from Banoco's only oil field is declining by 5-6 per cent a year from a 1971 peak of 75,000 b/d, and will only be extended beyond the end of the century by enhanced recovery methods or the discovery of new resources. The average oil extraction rate for 1983 is put at no more than 42,500 b/d—a drop in a bucket by Gulf standards.

Fortunately Bahrain's reserves of natural (non-associated) gas from the Khuff zone, lying at between 8,500 and 10,500 ft, will not be so quickly depleted. The zone was tapped commercially only 12 years ago to provide energy for aluminium smelting, and is now being developed to fuel new industries and provide feedstock for petrochemicals. Dry Khuff gas is also used for gas injection to the oil reservoir and fuel for the refinery and gas turbine power stations, to conserve the richer product from the shallow Arab zone.

Suspicious

Banoco has drilled two new development wells into the Khuff gas zone and is completing a third. But it has also invested \$4m in a deep seismic survey aimed at delineating a possible hydrocarbon trap below the Khuff interval. Geologists have long suspected the existence of such a formation, but the last attempt at exploratory drilling (in 1978-79) ended without result at 16,000 ft.

The data obtained from the "vibroscans" survey, completed last month by a French contractor using special vibration vehicles to send seismic shock waves to below 20,000 ft, is now being processed in France. Although some preliminary results may be available by August, detailed interpretation will take until the end of the year. Drilling provides the

STRUCTURE OF THE OIL INDUSTRY

Supreme Oil Council
Chairman: The Prime Minister
Members: Ministers of Foreign Affairs, Development and Industry, Finance and National Economy, Works, Power and Water, Labour and Social Affairs

Ministry of Development and Industry
Co-ordination of company activities

Bahrain National Oil Company (Banoco)
Established 1976
100% Bahrain Government
Oil exploration and production, local and international marketing (to include aviation fuel from end 1983)

Bahrain Petroleum Company B.S.C. Closed (Bapco)
Established 1981
60% Bahrain Government, 40% Caltex Corp.
Oil refining

Bahrain National Gas Company (Banagas)
Established 1979
75% Bahrain Government, 12 1/2% Caltex, 12 1/2% Apicorp-Arab Petroleum Investment Corp.
Gas liquefaction—propane, butane and naphtha, i.e., NGLs

Caltex Bahrain
Established 1981
100% Caltex Corp.
Operates Caltex stake in refinery, provides manpower and technical services to Banoco and Bapco, markets Caltex products

Heavy Oil Conversion Company (HOCC)
Not operating—see new industries article

Gulf Petrochemical Industries Company (GPIC)
Not operating—see new industries article

only conclusive proof of an oil and gas-bearing structure, but if the seismic indications are negative at least Banoco could be saved \$20m or so on a deeper-than-ever dry hole.

Offshore, results are still awaited from a \$15m Western Geophysical survey which covered almost the whole of the marine concession area except the 2,000 sq km still (fruitlessly) held by a consortium of U.S. exploration companies, led by Union Texas. Cautiously, Mr Shirazi says the picture is "a little less gloomy" than before, but he has never pinned his hopes on more than a few pockets of oil which might have been missed by earlier test wells.

In addition to his functions as chairman of Banoco, the Supreme Oil Council has entrusted the Development Minister with the responsibilities of Chairman and Managing Director of Banoco, which like the National Gas

Company was left headless by the departure of Hassan Fakhro, following a serious personality clash.

This arrangement is not expected to last much more than a year, but meanwhile one can have some sympathy with the two companies' Vice-Chairmen who have been propelled into a management and administrative role. Both are senior civil servants, who will not be allowed to make the policy decisions (since that is the prerogative of the Supreme Oil Council) and do not have the industrial background to make the operational ones.

The Bahrain National Gas Company (Banagas), in which Caltex and the pan-Arab owned Arab Petroleum Investments Corporation each have a 12 1/2 per cent equity stake, was established in 1979 to produce natural gas liquids from the 120m standard cu ft a day of associated gas which was previously vented. The lique-

CONTINUED ON NEXT PAGE

Economy

BAHRAIN V

Mary Frings examines developments in the oil industry

Refinery plans aim to look beyond pricing crisis

PUBLIC ANXIETY over the state of the oil market caused a slide in local share prices earlier this year. The rush to turn stocks into cash had nothing to do with the Bahraini companies' performance, since the publicly-quoted banks and insurance companies reported better-than-expected results and paid handsome dividends, while the need of the few investors to meet post-dated cheque commitments incurred on Kuwait's Souq Al-Manakh is not thought to have had more than a marginal impact.

There was clearly a crisis of confidence in the oil-fuelled economy, as the Opec price debate dragged on and the international press speculated on a \$25 barrel. People worried particularly over future revenues from the offshore Abu Safa oilfield, which is shared with Saudi Arabia and which for past four years has been worth more to Bahrain than its own dwindling oil resources.

To add to the apprehension, the temporary closure of the Arabia-Bahrain pipeline left the Bahrain Petroleum Company's (Bapco's) 250,000 barrels a day (b/d) refinery operating at only 20 per cent of capacity and raised the spectre of a total shutdown, with 3,400 Bahraini refinery employees out of work.

At the Middle East Oil Show in March, visiting oilmen were openly discussing a Caltex pull-out from the joint-venture refining company, since there could be no profit in paying 40 per cent of the overheads while running no crude.

The Bahrain Government, which since July 1980 has been a 50 per cent shareholder in the refinery, was then proceeding only the 43,000 b/d available from the Bahrain field. In the depressed state of the petroleum products market, Saudi crude was too expensive and there were strong political arguments against buying cheaper alternatives, although Caltex flirted with the idea of seeking supplies from Egypt and Oman.

Reassurance

Government officials were quick to offer reassurance. The Arabia-Bahrain pipeline was reopened for two or three days (which gave rise to speculation about concessions in the advance of the OPEC reductions), and the Prime Minister went to Riyadh for talks with King Fahd.

He returned with a pledge that production from Abu Safa would be protected, even though Saudi production as a whole had fallen below one-third of capacity. This means that Bahrain can count on at least 50,000 b/d, perhaps as much as 65,000 b/d given peak production, although the value per barrel will have dropped by 15 per cent in line with official prices.

The medium grade Abu Safa crude is not as commercially attractive as Arabian Light, so from an economic point of view it would have been logical to cut production but maintain payments to Bahrain on an ex

gratia basis. But this is not the way it is done. The arrangement over Abu Safa is based on historical rights, although today few Bahrainis even in the oil industry are aware of the background to it.

In the absence until 25 years ago of clearly defined territorial boundaries, the rulers of Bahrain traditionally claimed sovereignty over a disputed shallow water area known as Fasht Abu Safa, some 40 miles from their northern coastline.

In 1941 Sheikh Hamed bin Isa granted the Bahrain Petroleum Company (Bapco) exploration rights there, but work was held up until the end of the war, and then suspended in response to Saudi objections, pending settlement of the sovereignty issue.

Demarcation

Negotiations in 1954 resulted in Saudi acceptance in principle of a Bahraini proposal to divide Fasht Abu Safa, but at a subsequent conference in Dammam differences arose over the demarcation line. Dr Husain Al-Baharna, in his authoritative legal history of the Gulf states, notes that thereafter "the idea of sharing in any oil without attempting to make a geographical division seemed to appeal to both governments."

In 1958, the then Ruler of Bahrain, Sheikh Salman bin Hamed, met King Saud bin Abdulaziz and agreed to relinquish his claim to Fasht Abu Safa in return for an undertaking to grant Bahrain one-half of net oil revenue accruing to the Saudi Government from the Abu Safa area, which now lies exclusively within the Saudi Government's jurisdiction.

When oil was discovered in commercial quantities in 1965, Aramco as operating company was still entitled to 50 per cent of production under the terms of its concession, so Bahrain initially benefited from only a quarter share—but this was increased by decree of King Faisal, in a gesture of goodwill which has set the pattern of relations between the two countries ever since.

There is no question of Bahrain's share of oil from Abu Safa feeding the refinery, since the transaction is purely financial. The Saudi crude which is pumped through the Arabia-Bahrain pipeline is purchased commercially by the shareholders in Bapco according to their market requirements. Nor is Bapco refining crude on behalf of Saudi Arabia, as a result of the understanding reached a few weeks ago with King Fahd. This is an attractive concept which would utilise spare capacity and reduce unit costs, but it remains a possibility for future discussion.

However, Caltex is trying out a similar formula with a 60-day contract starting this month, to process incrementally 20,000 b/d of Bombay High crude on behalf of the Indian Government.

Bapco ran some Iranian

crude in the 1960s, but the waxy, light (39 API) Bombay High presents some new processing challenges. Opinion is divided on the wisdom of processing crude cheaply for a competitor, for the sake of alleviating a temporary cost crisis; on the other hand there are plenty of other distressed refineries which would do the job, if Bapco declined it.

The record crude runs of 1981, averaging 250,000 b/d, dropped to 197,000 b/d in 1982 as it became increasingly difficult to sell petroleum products at economic prices. The new year started on a high note with throughput of 211,000 b/d in January, but February saw a disastrous 66,000 b/d average and March was only up to 87,000 b/d.

At these levels the first quarter trading position was almost certainly in the red, although April has shown a marked improvement with Caltex running 80,000 b/d of Saudi crude at peak and the Government 60,000 b/d, in addition to the Bahraini crude.

What is needed now is a period of price stability to enable the shareholders to take a long-term view of the refinery's viability. Mr Youssef Shirawi, the Chairman of Bapco and Bahrain's Minister for Development and Industry, commented in March: "At the moment we have a crisis, and in a crisis I do not take decisions. Let the crisis become a problem and then we will try to solve it." He is more in favour of a sound five-year strategy than of short-term solutions.

Refinery capacity around the Gulf will more than double over the next five years, unless there are serious curbs on expansion. According to the Opec bulletin, installed capacity among the six Gulf Co-operation Council states currently totals 1.8m b/d, much of it serving domestic needs.

Another 1.8m b/d now being installed or planned will produce much bigger volumes for export, and these products will be sold in the markets traditionally served by Bahrain.

Meanwhile regional states are becoming self-sufficient; in the UAE, for example, there is no longer a market for Bapco's fuel oil since the opening of the Ruwais refinery and the development of gas resources to fuel power stations and desalination plants.

Mr Shirawi does not regard these developments as competitive. "There is a demand for 7m-8m barrels a day of GCC crude. The philosophy behind the expansion of refinery capacity in this area is to help the economy and 'push the barrel'. We will not have any difficulty in marketing our share."

In the region as a whole, he argues that "the price of oil in the last decade made us too comfortable. Now we are part of the real world, we have to strive, to assess, to cut our expenses—and that is very healthy. When production costs per barrel are among the lowest in the world, any dollar

after \$24—which must be the world's highest production cost—is a bonanza for us."

Caltex is no doubt making its own assessments, and has been forced to recognise that, at the political and economic bargaining table, Mr Shirawi is as formidable an opponent as he is across a chessboard. The partnership deal is always negotiable, and Caltex will probably stay in Bapco as long as it is not asked to give away too much.

To assist in devising a viable long-term strategy, Bapco has commissioned a study team to scrutinise every aspect of the refinery operation. It will report on the management steps to be taken and the investment required to support whatever throughput level is appropriate to changing consumption patterns.

A vital objective of the team's work will be a further reduction in per barrel in manpower and service costs, although economies last year already achieved savings of 15 per cent. It was unfortunate that the launch of a Cash Flow Improvement Programme coincided with the issue of new cars to company executives, so that CFIIP was promptly translated as Cars For Important People.

Product mix

Products manufactured at the refinery in 1982 included 7.5m barrels of asphalt, 10m of gasoline, 2.7m of kerosene, 8.3m of aviation turbine fuel, 19.5m of diesel, 19.5m of fuel oil and 1.8m of asphalt. Fuel oil and asphalt accounted for 31 per cent of the total.

One of the options would be to reduce the range of products and run the refinery at 175,000 b/d instead of at its rated capacity. Above 200,000 b/d the process is less efficient and results in a higher percentage of low-value fuel oil, although the introduction of advanced technology aims to achieve maximum recovery of light products.

A \$7.8m revamp of the Fluid Catalytic Cracking Unit was completed last year, and a new reactor and vacuum tower for the Light Isomate Production (LIP) project was due to have been brought on stream this month; unfortunately a fire on May 10, which killed one man and seriously injured two more, has put the project back by two weeks. The LIP project is a development of Bapco and Chevron Research Company, costing \$32.5m, and the technology is already being copied elsewhere.

In the words of Bapco's chairman, these major investment projects and the completion of a \$4m training centre "reflect the company's confidence in a prosperous future, supported by the loyalty of its employees and their ability to stand firm at this critical period for industry in general."

Energy sector

CONTINUED FROM PREVIOUS PAGE

factory plant was built at a cost of \$100m and achieved full payback 18 months after going on stream.

The depletion of oil reserves gives the Banagas project a limited life, although associated gas is expected to be available in economic quantities for another 15 years. There are no plans to top up with dry Khuff gas, which contains only minor quantities of the major NGAs, propane and butane.

However, Banagas is now hoping to use the remaining Arab zone gas if a study by Banoco and Chevron indicates the presence of reserves sufficient to justify an investment of \$20m.

In 1982 Banagas made an operating profit before tax of \$57m and paid a \$31m dividend to shareholders. This compared with a profit of \$66m in 1981. Oil and gas companies whose profits are not entirely payable to the government are liable to income tax under a 1955 law, which was amended in 1979 to bring the rate from a sliding scale to a standard 46 per cent.

Banagas in 1982 processed for export, under a sales agreement with Caltex, 1.8m net barrels of propane and butane and 1.14m barrels of naphtha which was routed to the refinery. The dry residue gas supplied 80 per cent of the energy needs of the ALBA powerhouse. Naphtha prices dropped over the year from 75 cents a gallon to 64 cents, and were on average 5 per cent below the 1981 level. But propane and butane prices firmed by year-end, with propane at \$200 a metric ton and butane at \$260. The upward trend has continued into 1983.

Budgeted liquid volumes for 1983 are about the same as last year. Despite the loss of some 20 mcd of gas, Banoco's oil

well workover programme will progressively prevent bypassing of injection gas and Banagas will get a richer feedstock to compensate for reduction in volume.

During 1982 Banagas had its first major shutdown to modify the plant safety system, although the company's excellent safety record won a Royal Society for the Prevention of Accidents silver award.

New developments for this year include the first phase of a ring main system linking the four compressor stations, for which a \$665,000 contract has been let locally. A de-bottlenecking study completed by McDermott prepares the way for an expansion of capacity if a decision is made to exploit Arab gas reserves before the supply of associated gas runs down.

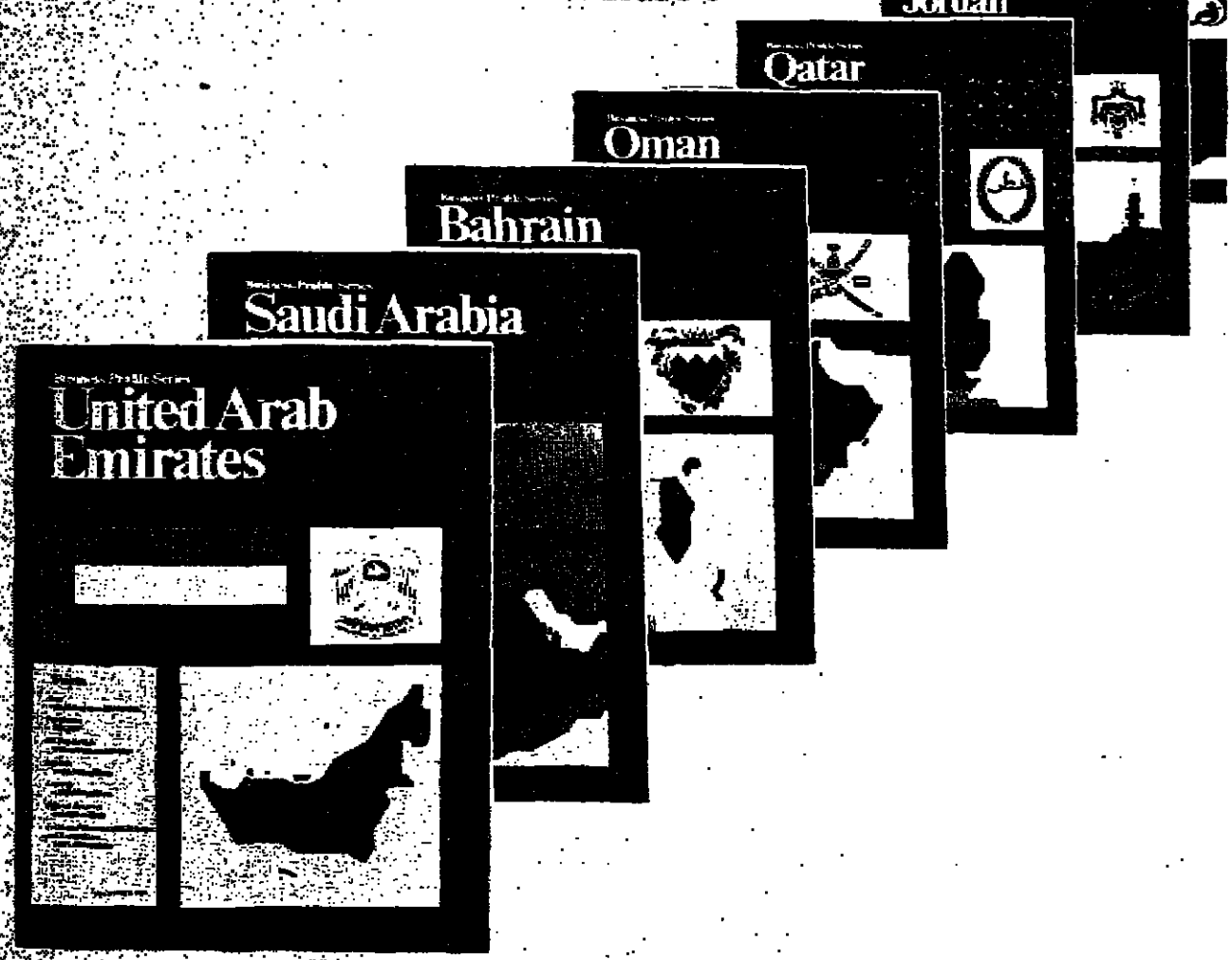
Although Banagas is only three years old Bahraini nationals make up 65 per cent of the 190-strong workforce, while 35 academic trainees and 23 technicians are being groomed to play an active role in company operations.

Two Gulf joint-ventures, Gulf Petroleum Industries (GPI) and the Heavy Oil Conversion Company (HOCC), also come under the aegis of the Supreme Petroleum Council. The first has a twin methanol and ammonia complex under construction, and the second has at the feasibility study stage a project to refine residual fuel oil into light distillates.

The only "independent" is Caltex Bahrain, formed in 1981 to look after Caltex Corporation's equity interest in Bapco and to provide manpower and technical services for both Bapco and Banoco.

Mary Frings

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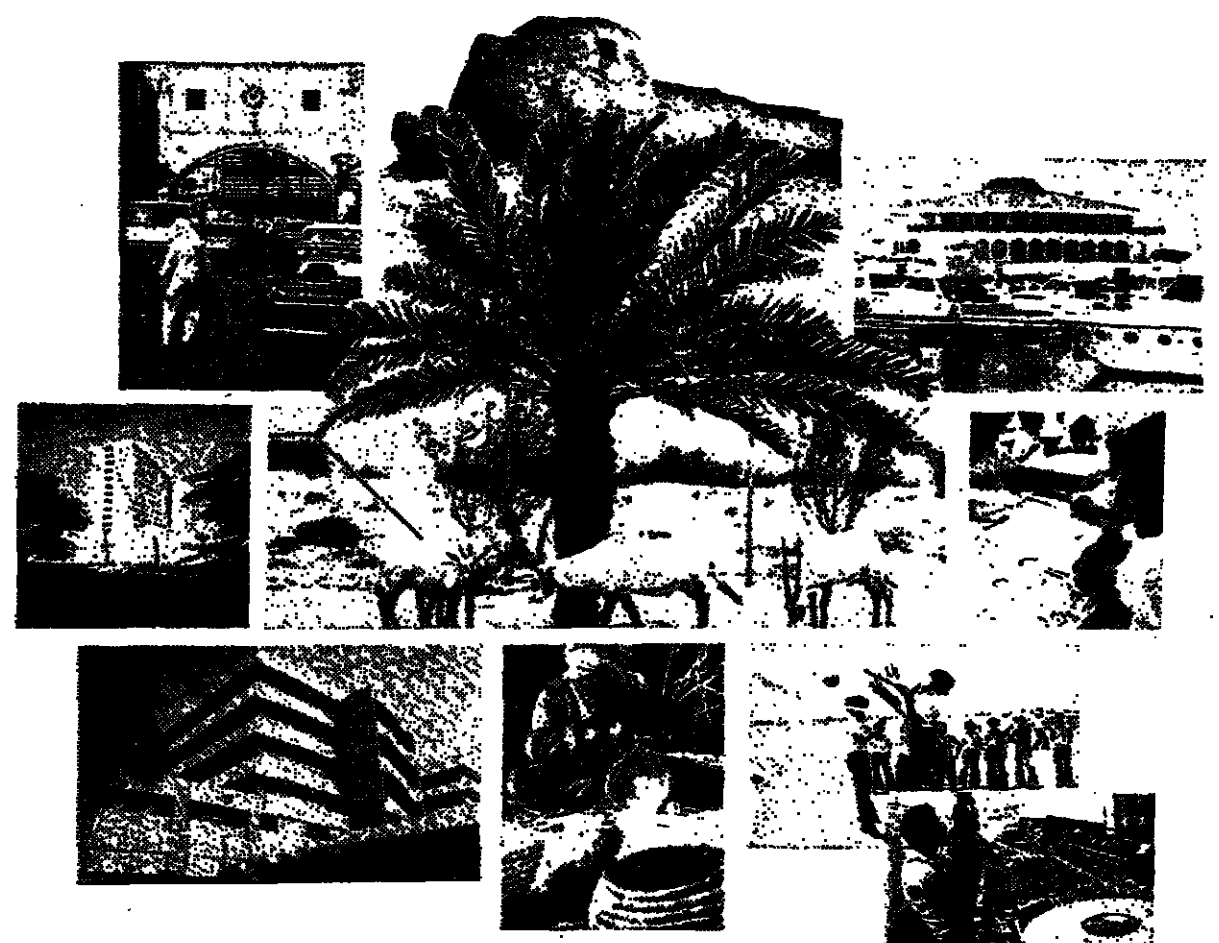


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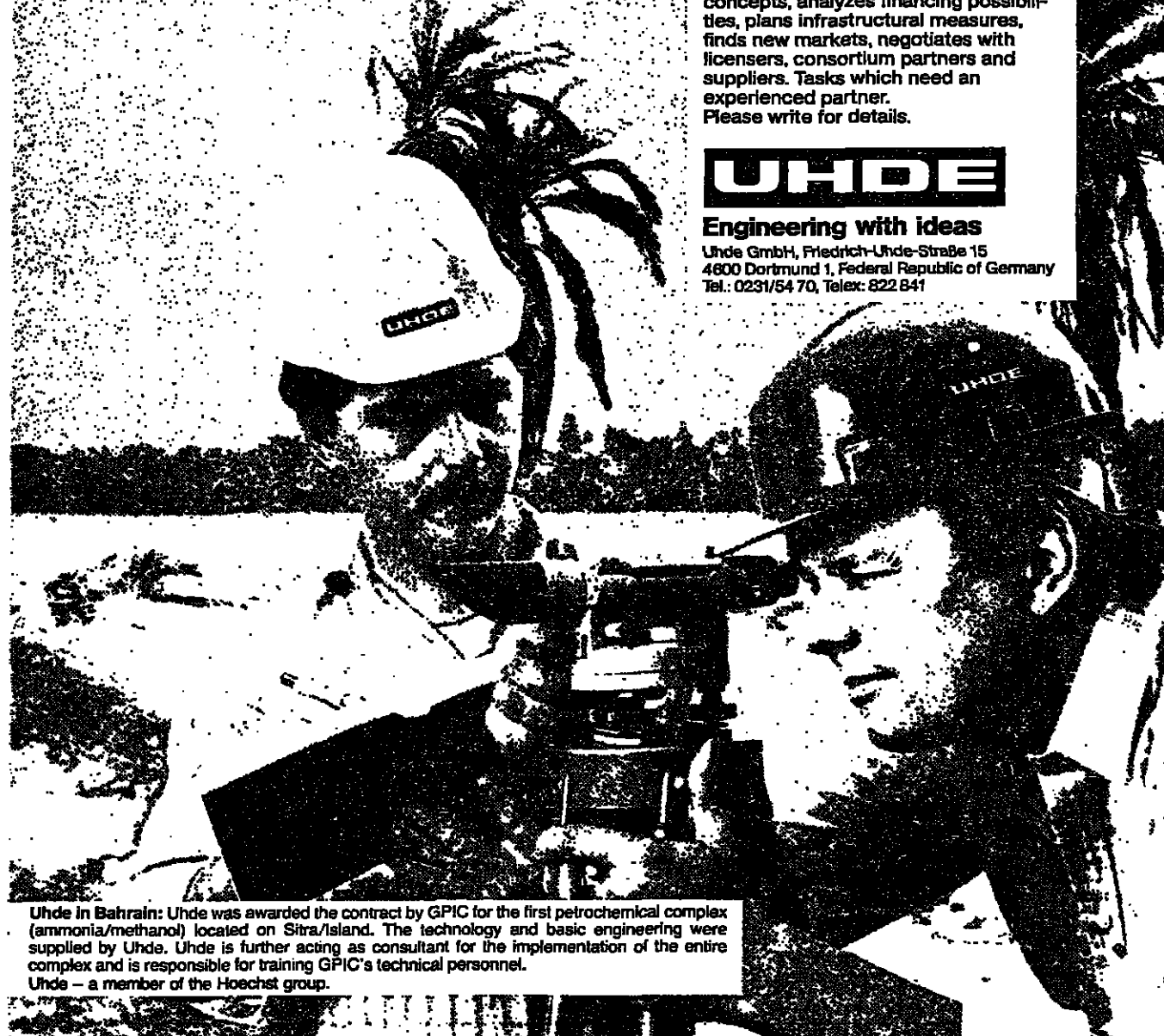
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Initial Paid up Capital \$180,000,000 · 1982 Net Profit \$24,940,000

BAHRAIN VI

Finance

BAHRAIN OFFSHORE BANKING UNITS

	ASSETS (U.S.\$m) — Geographical classification					LIABILITIES				
	Arab Countries	North America	Western Europe	Offshore Centres*	Other	Arab Countries	North America	Western Europe	Offshore Centres*	Other
1976	2,487	13	1,128	1,241	1,944	2,578	214	2,277	823	222
1977	7,065	468	3,904	1,888	3,376	8,255	419	4,995	1,539	493
1978	11,688	277	5,301	2,971	3,204	11,666	1,891	7,018	1,850	1,016
1979	14,739	477	6,917	2,243	3,388	16,143	828	7,873	1,936	984
1980	19,770	641	9,764	2,538	4,753	24,236	358	9,211	2,339	1,222
1981	24,523	1,003	13,257	3,857	7,794	34,075	700	11,101	2,905	1,953
1982	25,994	1,431	14,320	4,654	9,608	39,457	1,287	12,297	4,370	1,596

* Bahamas, Hong Kong, Singapore, Lebanon.

Source: Bahrain Monetary Agency.

Period of rapid expansion in offshore banking ends

SEVEN fully licensed offshore banks opened in Bahrain during 1982. The same number came in during 1981. But apart from those banks which have yet to take up their licences such as Arab Trust and Banking, it would be surprising if there were as many newcomers this year.

"I will not say that we are having a moratorium on new offshore banks because that would not be strictly true," says Shaikh Ebrahim bin Khalifa Al Khalifa, the assistant to the Governor of the Bahrain Monetary Agency (BMA). "But we are looking more carefully at the situation." His remarks show caution rather than outright concern.

With the growing number of international debt rescheduling exercises, particularly for Latin America, on the one hand, and the contraction in the spending power of Arab oil producers, on the other, the rest of 1983 could be a watershed for Bahrain's offshore banking industry.

There is no sense of crisis, and most of the 72 Offshore Banking Units (OBUs) active in 1982 (out of 77 which have been awarded licences) appear to have made profit. Business, however, is slowing down, and the next few months will be a time of consolidation rather than of further growth.

Assets and liabilities for March, the latest month for which figures are available, stood at \$56.1bn. This represented a continuation of the downward trend from \$61.1bn last August, punctuated only by a rise from \$57.3bn to \$58bn in December, as a result of end-of-year "window dressing." On an annual basis, the growth rate of the offshore market slowed to 16 per cent in 1982, compared with 35 per cent a year earlier.

Allied to the poor international outlook were regional economic uncertainties and political tensions induced by the continuing hostilities between Iraq and Iran, and the Israeli invasion of Lebanon.

Offshore bankers faced a more practical problem when Saudi Arabia last January announced restrictions on syndicated lending in riyals. Unofficial translations of the Saudi Arabian Monetary Agency (SAMA) guidelines were quickly circulating in Bahrain.

What SAMA actually said sounded innocent enough: that Saudi banks should seek permission before inviting foreign banks to participate in Saudi riyal syndicates, or before themselves participating in any syndication arranged offshore. But how readily permission would be given—and whether the guidelines represented the tip of a far more dangerous iceberg—were topics of anxious discussion.

As yet, there are no restrictions on the availability of offshore riyals and direct lending to clients based in the Kingdom has not been affected. Nor have syndicated facilities denominated in dollars. Most bankers feel they can live with the SAMA measures, and see them mainly as a reflection of Saudi Arabia's long-held desire to prevent the development of a Euro-rival market and to curb the outflow of funds from the Kingdom.

Indigenous

They believe SAMA also seeks to encourage Saudi domestic banks to take on more loan business, instead of letting it go to the "suitcase bankers" from Bahrain, who have been aggressively marketing their speedier and more sophisticated services. On the other hand, it is pointed out that the ability of both indigenous and Saudi banks operating within the Kingdom to meet the whole of the Saudi-related borrowing requirements is governed by capital limitations, reserve requirements and the prudent disposition of risk.

One European banker says: "There is still enough business in the Kingdom for Bahrain banks. The measures were not directed against the offshore industry here; they were merely aimed at stopping the riyal being internationalised."

More serious could be a decision by Saudi Arabia's Ministry of Finance to apply in a systematic way the existing provisions for a withholding tax on the interest earnings of foreign banks. This has been much rumoured, without any serious practical effect. But if Bahrain banks were forced to put up with their lending rates to Saudi-based customers, in order to protect their already fine profit margins, it would become much cheaper for private sector concerns to borrow within the

Kingdom. Some bankers are slightly worried, others are more sanguine. One leading American banker says: "We deal with withholding taxes all around the world, we could cope with one here."

Saudi Arabia does not represent the be-all and end-all of Bahrain's offshore banking industry but it is clearly important. Overall, 49 per cent of assets were invested in Arab countries at the end of last year. Saudi Arabia would account for a large share of this.

Close on 67 per cent of liabilities were outstanding to Arab countries. Again, deposits from Saudi Arabia must have played a major role.

The difference between Arab world assets and liabilities in the system, amounting to \$10.5bn, is a measure of Bahrain's success in recycling Arab funds outside the region and particularly to the Third World.

Bankers in Bahrain, insofar as they admit to some concern, seem less worried about Saudi Arabia than about the world picture generally. One Arab banker says: "Even the very big banks are being conservative about the credit lines they are sending this way."

Contrary to widespread belief Bahrain has never been a repository for the petrodollars earned by Arab oil producers. Since its inception in 1975 the offshore industry has been funded primarily by private sector liquidity, although there has been some investment by government agencies from Saudi Arabia and elsewhere.

The BMA says the offshore banks do not have any basic bread and butter business, although the smaller banks go in for letters of credit and guaranteed bonds in a big way. Otherwise the banks deal in everything from direct loans to package facilities to syndications, money market operations and foreign exchange.

Loans not related to regional business are not infrequently booked through Bahrain because of its tax free status and lack of exchange controls. Guarantees for contractors involved in development projects are a good source of fee income.

The charm of these arrangements is that the banks are rarely required to put up any money unless contractors

default or fall seriously behind. In the banks' balance sheets such arrangements, if they feature at all, count as contingent liabilities.

The interbank money market has not grown as big in absolute terms as some bankers thought it would, although the BMA's December bulletin shows that at year-end over two-thirds of the OBUs' business was interbank. On the assets side interbank funds added up to \$39.5bn out of a \$59bn total, while on the liabilities side they amounted to \$41bn. Roughly three-quarters of this business was with banks outside Bahrain.

Given the international economic climate, the pattern in the foreseeable future is likely to be shapely regional competition, a search for new business in areas such as the Asia-Pacific and a moratorium on the type of large-scale sovereign lending in which Arab Banking Corporation (ABC) and Gulf International Bank (GIB) have hitherto specialised.

Participation

Several Bahrain banks have opened branches in Singapore or Hong Kong, and the Asia-Pacific region is attracting increasing attention. Kuwait Asia Bank was set up last year specifically to develop business opportunities in this fast-growing area, and has invested 75 per cent of its assets there. Equity participations undertaken in 1982 included a 49.9 per cent interest in a joint investment venture (in connection with the Perth natural gas pipeline in Australia).

Only one Japanese bank has a licence to operate as an OBU in Bahrain. Although there are three investment securities dealing operations and 17 representative offices, some long-standing Bahrain bankers had been expecting the Japanese to make an onslaught on the regional market. Although there is some regional involvement, most Japanese concerns seem to be primarily involved in raising funds for projects back at home, or even for head offices.

The funding opportunities Bahrain offers is certainly attractive to banks from developing countries. Mr Pedro Cudde, the general manager of Banco de Estado de Sao Paulo, reckons most of his business is now concerned with lending back in Latin America.

The overall picture is thus one of a tighter leaner year. Most OBUs seemed to emerge from 1982 in reasonable shape. The BMA does not break down individual profits for offshore branches of foreign banks but the aggregate profit was in the region of \$450. Almost half of this was earned by half a dozen big banks. There is plenty of rumour and speculation that such and such a bank is in the red or about to be so, but there are few signs of imminent collapse.

While BMA officials are not expecting any serious problems they, like OBU general managers, agree that there could be some departures as well as a lack of new banks coming along. In the harsher environment of 1983 the opportunities do not exist on the scale hitherto.

One U.S. banker was relaxed about the prospect of some banks scaling down their operations or leaving. "Banks set up in a place for all sorts of specific reasons. If it is a mature banking and financial centre, there is no reason why banks should not come and go. After all they come and go from London or New York; if it does not suit their interests to stay, why not Bahrain?"

Stewart Dalby

Traders bullish about business prospects

IN A state which is supposed to be feeling the effects of an oil price slump, Bahrain's merchant community is surprisingly bullish about business prospects at the moment.

There have been no announcements from the Government about major cutbacks in expenditure so far, and even the decision to stretch the four-year plan over six years was welcomed by the private sector. Merchants say they prefer steady growth to spurts of expansion which leave their companies over-sized and ill-equipped to cope with slumps. Most concede that the present building boom is likely to tail off within the next 18 months or two years, but in the meantime, no one is grumbling.

In the medium-term future is the unknown bonanza promised by the Bahrain/Saudi causeway. So far, the commercial community can only speculate on the possible economic impact of Bahrain suddenly becoming attached to the Saudi mainland, but all agree that the effects will be major and mostly beneficial.

There is still much discussion in Bahrain about which way the trade patterns will develop when the causeway is opened in 1986. The island's port, Mina Sulman is naturally hoping that traffic for Saudi Arabia will come into Bahrain and be transported to the mainland by lorry. Indeed, the port is going ahead with a plan to convert additional berths to container traffic in order to continue to attract major shipping lines.

Others, in the merchant community, speculate that the traffic will be in the reverse direction, from Saudi Arabia to Bahrain, and that because the causeway will provide a direct connection to Europe, prices in Bahrain will fall. The human traffic is undoubtedly going to be flowing into Bahrain. The island's hoteliers are licking their lips

at the potential the causeway offers for boosting flagging occupancy rates. At the moment, it is still unclear what the Saudis will decide about visa regulations and security checks. According to G.C.C. rules, Bahrainis and Saudis will be able to pass freely, but expatriates will still be prevented from making casual visits to Bahrain because of exit permit requirements. There will be no question of popping over to Bahrain for a drink and dinner.

Surprisingly enough, there appears little concern in Bahrain that the causeway will turn the island into a "sin city" where Saudis can come to drink and disco as freely as they like. Most merchants say that Bahrain is too close to home (and hence so scandal) for Saudis to be anything but highly discreet in their enjoyment.

The causeway will also encourage a strengthening of the commercial and industrial links between merchant houses on either side. Many Bahrainis have already consolidated those ties through marriage to Saudis and many are in partnerships in industrial ventures either in Bahrain or on the mainland. Such ventures are likely to blossom under the new G.C.C. tariff system, which provides free access to all Gulf markets for industrial goods which have been partially assembled in a member state.

Bahrain is still negotiating with its Gulf brothers about customs duties. For Bahrain, customs revenue constitutes about 15-18 per cent of total government income but for other states the taxation of imports is barely a necessity at all. Bahrain has recently been increasing its customs duties—there was a new 20 per cent tax applied on all car imports in February. On other goods such as cigarettes and alcohol (which attracts a 100

per cent tax), the rates are even higher.

Commerce Ministry officials say the government is going to push for a grace period to resist its current duties on imports or seek compensation for agreeing to reduce them.

The causeway is also expected to stimulate interest by Saudi nationals in buying property on the island. Saudis and Kuwaitis have for a long time been allowed to acquire land, and such is the extent of their purchases, that some circles are already concerned that they have been too much. The Assistant Under-Secretary for Commerce, Hassan al Nuseif, says that at the moment, the proportion of land held by other Arabians is not worrying, but that action may be taken to prevent speculators moving in and disrupting land values. "This sector has to be organised before the causeway opens," declares Nuseif.

Local merchants say that Bahrainis are unlikely to go on a selling spree to Saudis eager to build their own weekend villas on the island. "Those

CONTINUED ON
NEXT PAGE

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Finance

BAHRAIN VII

National banks dominate the domestic market

BAHRAIN'S THREE national commercial banks made record windfall profits in 1982, to boost their already healthy earnings from routine operations, while the 15 foreign banks in the domestic market had to work harder for an increasingly small share of the cake.

Apart from the special category Bahrain Islamic Bank, which has so far remained on the sidelines, only Bank of Bahrain and Kuwait (BBK), National Bank of Bahrain (NBB) and Al Ahli Commercial Bank (ABC) are permitted to handle subscriptions to new share issues—whether for Bahraini or offshore public shareholding companies—and to arrange seven-day credit facilities for subscribers.

The banks reaped considerable rewards from these activities in 1979 and 1980, but last year there were five heavily over-subscribed offshore issues and the takings were enormous; in the case of Al Ahli Commercial Bank, more than four times the ordinary income.

BBK declared extra-ordinary earnings of \$44m, together with income from operations (consolidated) of \$34.6m. A little more may have been "hidden" in inner reserves. NBB's \$24m share of the windfall was less than half its operational income of \$51.5m, whereas at Al Ahli Bank ordinary income of \$4m was dwarfed by share issue profits of \$18.7m.

"On yes, we made a lot of money from the share issue," says Mr Gregg Krikorian, the general manager of Al Ahli, grinning broadly. "But there will be no repetition this year, that is why we have separated out exceptional profits in our annual report."

Following the collapse of Kuwait's Suq Al Manakh, where most of the Bahraini offshore "Exempt" Company (EC) shares were traded, the climate has turned against the flotation of new companies. There are unlikely to be any further flotations this year, although the establishment of a well-ordered stock exchange in Bahrain could put new life into the market.

International consultants are at present drawing up guidelines for the establishment of an official stock exchange, probably by the beginning of 1984. Meanwhile, many of the independent Bahraini stockbrokers who opened shops in the boom period have closed them again, and deals are concluded either through the few brokers who remain, by private treaty or

occasionally through the banks. The annual reports of BBK and NBB present a set of figures different from those published on the commercial banks by the Bahrain Monetary Agency (BMA). This is because they each have an offshore banking unit (though it is run more as an international division of the main bank than as a separate entity) and an overseas branch—BBK in Kuwait and NBB in Abu Dhabi—and the results of all three operations are consolidated. The BMA on the other hand strips out non-domestic activities.

Even in the BMA figures the national banks hold a dominant position in the market, with 90 per cent of the aggregate assets and 66 per cent of ordinary profits. Branches of foreign banks are excluded not only from the share issue bonanza, but from participation in guarantee and bonding business for government supply and construction contracts. Nevertheless many of them have been in Bahrain a long time (more than 60 years in the case of Chartered Bank) and have a loyal following.

Traditional

Chartered (formerly the Eastern Bank) and British Bank of the Middle East (BBMB) have traditionally run a retail business catering for hundreds of small depositors, while Chase and Citibank are oriented more to the wholesale market. In between are the "remittance" banks and others serving specific national groups, from whom they draw most of their customer deposits.

Economic activity was maintained at a healthy level in 1982, before dropping off prices began to have an effect. The GNP growth rate was estimated at 9 per cent, and domestic bank lending rose by 15 per cent over 1981. Trade financing accounted for over 30 per cent of lending, a little less went to the construction sector, and 20 per cent was classified as "personal". Manufacturing accounted for only 6.5 per cent, while a minimal 0.2 per cent was directed to agriculture.

Because there is no exchange control, there is scope for funds to leave Bahrain in search of the highest, available interest rates, although this has been less of a problem since dollar rates began to come down.

To maintain dinar liquidity within the banking system the BMA offers a swap facility, under which local banks may

COMMERCIAL BANKS RANKED BY SIZE OF ASSETS

Figures in BD m. (BD 0.377=\$1)

	Assets excl. contra	Contra	Loans	Customer deposits	Ordinary profit 1982
Bank of Bahrain & Kuwait	269	55	156	153	5
National Bank of Bahrain	258	190	112	181	11
Chartered Bank	143	18	79	120	2
Al Ahli Commercial Bank	116	27	79	81	2
British Bank of the Middle East	93	27	49	85	1
Bank Mellat	35	0.1	27	8	1
United Bank	31	9	12	28	0.5
Habib Bank	25	2	8	22	0.2
Banque Paribas	20	18	16	7	0.4
Arab Bank	20	5	7	14	0.2
Citibank	15	6	1	12	0.4
National Bank of Abu Dhabi	14	4	10	10	0.1
Bank Saderat Iran	12	0.3	11	3	0.2
Grindlays Bank	11	6	8	5	0.2
Algemene Bank Nederland	10	6	7	7	0.2
Deutsche Bank	9	2	6	2	0.5
Banque du Caire	4	2	2	2	0.2
Chase Manhattan Bank	3	30	2	2	0.5

† Not including OBU's or overseas branches.

NOTE: Net profits for the three locally-incorporated banks are shown after provision for bad and doubtful debts, but those for branches of foreign banks are shown before such provision.

Table compiled by Mary Frings.

swap dollars for dinars at a concessionary rate of interest, providing the dinars are needed for genuine commercial lending in Bahrain.

Secondly, and probably more importantly, the BMA has sanctioned the issue of negotiable certificates of deposit (CDs) at more attractive interest rates than those obtainable on ordinary fixed deposits. The Government has been anxious to keep ordinary deposit rates low, so that in turn local lending will not carry punitive rates of interest. The deposit rate ceiling ranges from 6½ per cent for one month money to 8½ per cent for 18 months.

However, CDs in initial lots of BD 30,000 and then in multiples of BD 10,000, were at one time last year carrying rates of up to 13½ per cent; against 18 to 19 per cent on comparable dollar-denominated notes in New York. Even at this level the Bahrain rate was not enough to prevent an outflow of funds.

But an extra 2 or 3 per cent obtainable on dollars is not normally enough to compensate for the cost of switching currencies and the exchange risk, although the latter is small. The BMA selling rate for the dollar has been fixed at 577 fils since 1980. Any change in parity is likely to be in favour of the dinar.

There appears to be little secondary market in CDs locally, so that word negotiable is something of a misnomer. The CDs are more like term deposits. However, they seem to have helped to retain liquidity in Bahrain.

Last year residents' deposits of local currency in the commercial banks (excluding govern-

ment deposits) rose from BD 541.1m to BD 687.3m (an increase of 27 per cent), while deposits in foreign currency fell 15 per cent from BD 233.5m to BD 198.8m.

The economic outlook for the current year is reasonable enough. Despite the pressure on oil revenues the Bahrain Government has not cancelled any of its major infrastructure projects, although they may be spread over a longer period. The Saudi-financed causeway and the joint-venture industrial projects are going ahead, and this will have a fall-out on the local construction market.

Limited

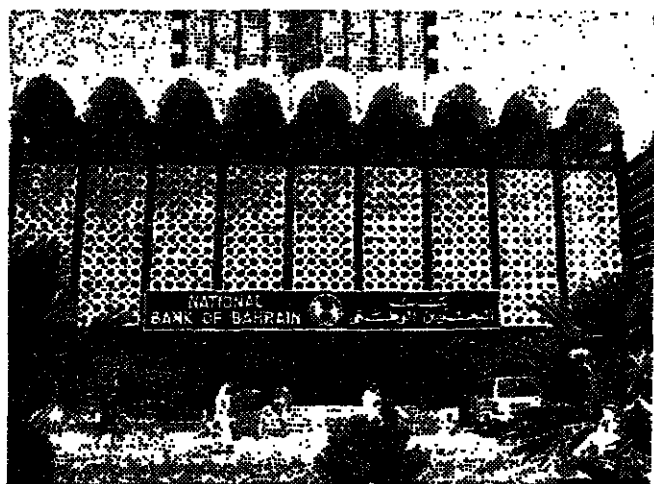
One leading banker said: "You can expect that the four-year plan development plan launched in 1982 will become a six-year plan."

However, with the economy slowing down as the region becomes less prosperous because of falling oil prices, the difficulties of finding loan business in a limited market might start to make themselves felt in 1984. While 40 per cent of NBB's business is non-domestic the smaller and younger Al Ahli Bank finds only 20 per cent of its business outside Bahrain, and that is mostly regional.

Mr Krikorian is not too worried. Although things could get tougher in 1984, "the world could come out of recession by then."

Another banker says: "There are too many banks in Bahrain competing for limited business. There are after all only 350,000 people here. But then the whole world is over-banked; it is a question of being competitive and innovative."

Stewart Dalby



The headquarters of the National Bank of Bahrain in Government Road, Manama. The National Bank is the oldest of the wholly Bahraini-owned banks on the island.

Traders' prospects

CONTINUED FROM PREVIOUS PAGE

who want to sell have already sold. The rest of us are unlikely to sell much more, but if we do, we will benefit from higher land values," said one businessman.

Bahrain is currently experiencing a slight softening in the property market, and local real estate agents say that villa prices are coming down. Luxury four-bedroom villas, which only a few months ago would have sold for between BD 1,500 and BD 2,000 a month, have now come down by about BD 200. Middle management accommodation, of which there is still a shortage, is holding its prices—for the time being. Agents say that a number of foreign companies and banks are now tightening their budgets and looking hard at Bahrain rents.

Office accommodation in contrast is firming, but faces a softening at the beginning of 1985 by which time most of the 10 to 12 buildings planned for the Diplomatic area will have been completed. By that time, the property market will be reacting to the imminent completion of the causeway, and though no major tourist or residential developments have emerged yet, over the next year or two, a number of large projects are expected.

Bahraini merchants are still very much trade orientated, and by their own admission conservative in the development of their businesses. Traditional families like the Yattins say they prefer to stick to the home base, rather than spread their wings to other Gulf states, despite the open access which C.C.C. rules now provide. Farouk Almoayad, head of one trading house, says

he is now considering participating in a number of joint industrial ventures in Saudi Arabia, but would prefer to deal in a market where he competes on a completely equal footing with nationals from that country. His forays into Western investment had not been encouraging at all.

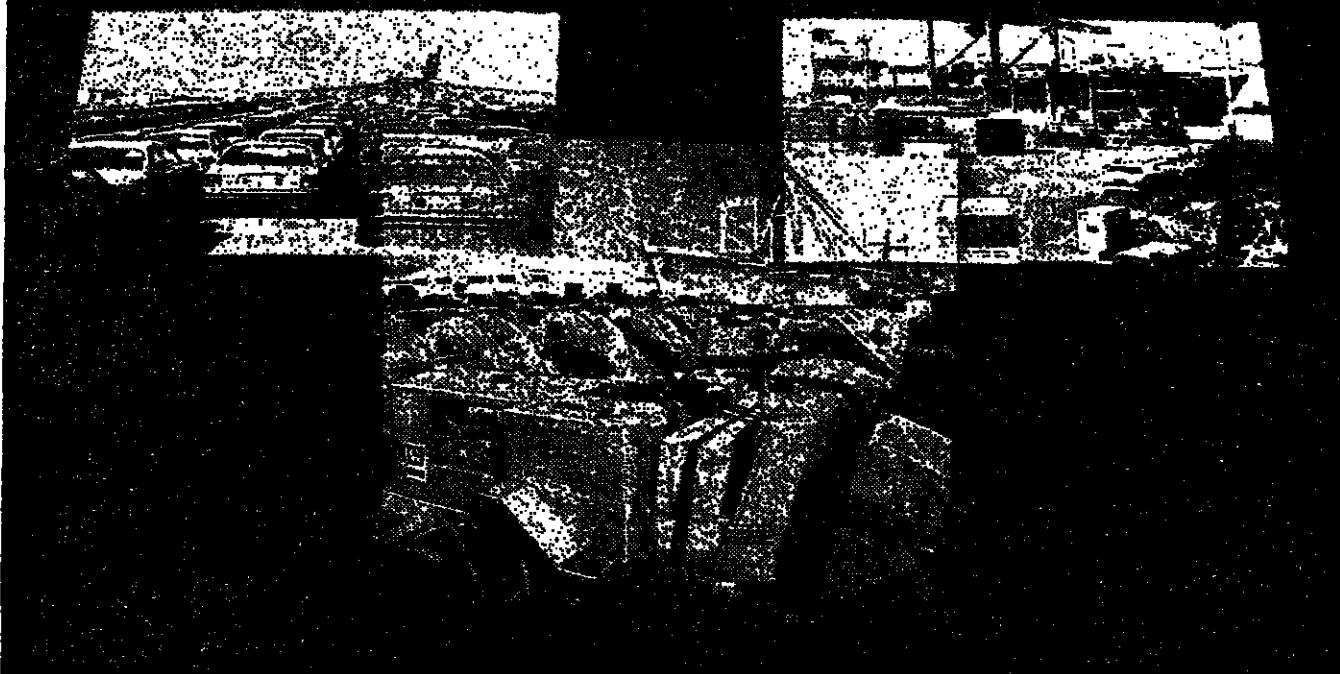
The Zayans in contrast have been spreading themselves over four continents, as well as being deeply involved in ventures with Saudis and Kuwaitis. Zayani investments now include hotels in London, housing in New York and Florida, and an investment company listed on New York stock exchange.

One type of investment activity likely to excite the Bahrainis in future will be trading on the proposed stock exchange. The exchange will be established by the beginning of next year, and will be administered by a regulatory body. "We have learnt the lessons of Kuwait," says the Commerce Secretary Hassan al Nusu, "and trading by post-dated cheques or in futures will be strictly forbidden."

The market will be divided in two. The official Bahrain market will list the 19 Bahrain public companies and will be accessible only to Bahraini nationals. The second market will take on some of the 13 offshore ("Exempt") companies traded on Kuwait's Souq al Manakh exchange. However, there will be careful study beforehand to assess companies' qualifications for listing, say officials. The offshore companies market will be open to all Gulf nationals.

Kathy Evans

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How Kuwait investors have influenced the economy

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Doing business

BAHRAIN IX

How to find the right trade channel

FOREIGN COMPANIES examining prospects for establishing commercial activities in Bahrain have first to decide if their objectives are limited to trading or supplying services into Bahrain or if their choice of Bahrain is for reasons of establishing an office for carrying on business in the region or further afield.

Agencies

Trading into Bahrain is conducted through a local sole proprietor or Bahraini company appointed as the commercial agent of the foreign principal.

There are few exceptions to the general rule that only Bahraini nationals and wholly Bahraini owned companies may act as commercial agents, but these exceptions have historical roots. The 1976 law on Commercial Agencies states that an applicant wishing to be entered on the Commercial Agency's Register at the Ministry of Commerce may be a company with 51 per cent Bahraini shareholding, but in practice it is no longer possible for Bahraini incorporated companies having any foreign shareholders to register as commercial agents.

In order to be enforceable a commercial agency agreement must be registered with the Ministry of Commerce and Agriculture. Renewal of an agency agreement must be effected every two years, whether the agency is for a fixed or indefinite term.

The agency agreement itself has two central features: (a) the agent should be the sole agent and (b) the agent should, generally speaking, be direct with the manufacturer of the product and not with an exporting agent of the manufacturer.

It is now a requirement that agency agreements should be stamped by the relevant Chamber of Commerce in the manufacturer's country, the Bahrain Embassy in that country, and the Chamber of Commerce and Industry in Bahrain.

The Ministry of Commerce and Agriculture plays an active role in overseeing trade. While the Ministry undoubtedly prefers to see agency agreements made subject to Bahraini law it remains possible for an agreement to be registered with a foreign jurisdiction clause. Arbitration clauses, frequently making the Rules of Conciliation and Arbitration of the International Chamber of Commerce applicable in the event of a dispute, are acceptable.

Notwithstanding the inclusion of an arbitration clause, if both parties to an agency agreement agree in writing, disputes may be decided upon by a three-member committee composed of a representative of the Bahrain Ministry of Commerce and Agriculture, a representative of the Bahrain Chamber of Commerce and Industry, and a local merchant.

In the event of a dispute it is frequently the case that the overseas principal is seeking to terminate the agency relationship. If the local agent agrees to the termination of the agency agreement, the foreign company will generally have to (a) pay compensation to the agent for the loss of the agency, (b) repurchase any goods held in stock by the agent at current market value and (c) satisfy the committee that all obligations (such as current guarantees on goods purchased) created by the old agency agreement are transferred to any new agent.

The role of the committee is to decide on the amount of compensation, if any, and the repurchase price of the goods in stock.

The number of agency disputes appears to be relatively few. The committee established by the Ministry deals with about 15-20 cases a year. There are few reported cases of referral of disputes to the Bahrain Courts or international arbitration bodies.

In the case of foreign companies seeking to establish a physical presence in Bahrain to carry on business in the country, such business activities are restricted to the supply of services. The choices of business medium available are: a branch office; a joint venture company; or a joint venture partnership.

Branch offices

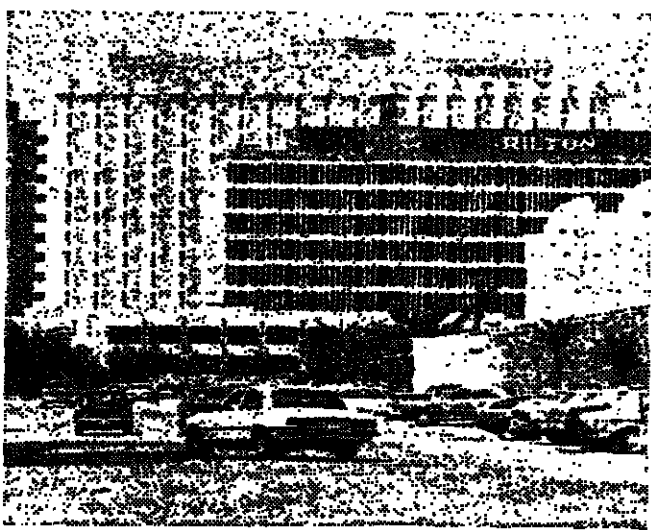
There are three recognised types of branch office. The category into which the company falls depends on the service activity which the foreign company intends to carry on.

The categories are consultant, for example architects, engineering consultants, and management consultants; representative, for example banks, airlines and manufacturing companies (the latter being restricted to the promotion of their products and not selling which as explained is a trading activity); and service companies, for example general contractors, electrical contractors and leasing companies.

For a consultant branch office it is not obligatory to have a local sponsor. In both other cases, a sponsor is necessary. The actual terms of the relationship between the foreign company and the sponsor are a matter for private negotiation between the parties.

There is very little written law on the subject of sponsorship and the obligations of the sponsor. At present the local sponsor is generally not responsible for the activities of the foreign company.

It has been reported that discussions are being held between the Ministry of Commerce and Chamber of Commerce on bringing into force regulations that will make the sponsor responsible for the activities of the foreign branch in certain circumstances.



The Hilton and the Sheraton—two of Bahrain's leading hotels. In the background on the left is the Bahrain Tower, one of the first of the new generation of high quality office blocks built in the late 1970s.

For the present it remains important that the duties and obligations of the sponsor should be set out clearly in the sponsorship agreement. The foreign company will usually look to the sponsor to provide assistance in such matters as obtaining work permits and residence visas and introducing business connections to the foreign company.

In return the foreign company pays the sponsor a fee. Again the level of remuneration is a matter for negotiation between the parties. Annual flat fees are perhaps less commonly agreed than a percentage fee, based on the yearly gross income or net profit of the branch office.

The sponsorship agreement must be filed with the Ministry of Commerce and Agriculture together with a series of documents, which include notarised and legalised board resolutions of the foreign company to open a branch, a clearance certificate from the local tax authority, Office (which in Bahrain is a department of the Ministry of Finance and National Economy), latest accounts, and a "guarantee" from the head office of the foreign company addressed to the Ministry of Commerce.

Each application to open a branch office in Bahrain is subject to the approval of the Ministry of Commerce. Although it is not obligatory, it would be accurate to state that the Ministry considers more favourable applications from overseas companies able to demonstrate through the provision of accounts and list of the main projects undertaken that they are well established.

As a precaution, the Ministry also requires bank references from the applicant's principal bankers.

Joint venture companies

These are registered as local limited liability companies. The principal features of such an entity include a minimum capital of BD 10,000, although the Ministry of Commerce does sometimes require that the level of capital be set up at a higher level. The capital has to be paid up in full in cash or kind. It is a requirement of Bahrain law that a limited liability company must have at least 51 per cent of its share capital owned by Bahrainis.

Association of the United company has to be submitted to the Ministry of Commerce approval together with a list of documents similar to those required for a branch office registration. The draft document must be carefully scrutinised before it obtains its approval.

Joint venture partnerships

Since 1981 certain professions and practices have been permitted to form joint venture partnerships. The professions include architects, quantity surveyors, chartered accountants and industrial engineering consultants.

In principle there must be a 51 per cent Bahraini share in the capital and operational earnings of the partnership, but in cases where two or more foreign partners, whether individuals or corporations, enter into the partnership the share of the Bahraini partners in the capital and operational earnings may be reduced to not less than 30 per cent.

For all companies carrying on business in Bahrain through the medium of a branch office or joint venture company fees are payable to the Ministry upon registration and annually thereafter.

The fees payable vary depending on the particular activity undertaken.

In the representative branch office category, banks currently pay BD 250 per annum, manufacturing companies BD 200 and airlines BD 2,000.

In the field of construction, "Grade A" contractors pay BD 7,500 per annum while electrical contractors employing over 25 people pay BD 2,000 per annum.

Exempt companies

The success of Bahrain in establishing itself as the financial and commercial centre for the Gulf has been well recorded. The factors which have continued to give Bahrain this pre-eminence are many, but undoubtedly significant has been Ministerial Resolution No. 25/1977 which permits the incorporation in Bahrain of companies exempted from certain provisions of the law on joint stock companies.

Perhaps the single most important feature of the ministerial resolution is that the share capital of an "exempt company" does not have to include any Bahraini ownership.

An exempt company is a Bahraini joint stock company which must have its capital office in Bahrain. However it is not allowed to carry on business in Bahrain, as opposed to carrying on business from Bahrain, without the consent of the Ministry of Commerce. This will be given only in exceptional circumstances.

The Ministry of Commerce reports that 136 exempt companies have been incorporated so far and that another 15 applications are under consideration.

The Ministry studies each application carefully and what is described as "free state business" is not permitted. Each exempt company must have a physical presence in Bahrain.

The application to the Ministry must include details of the office premises to be leased and the staff to be employed. The Ministry will expect the employees to include Bahraini nationals.

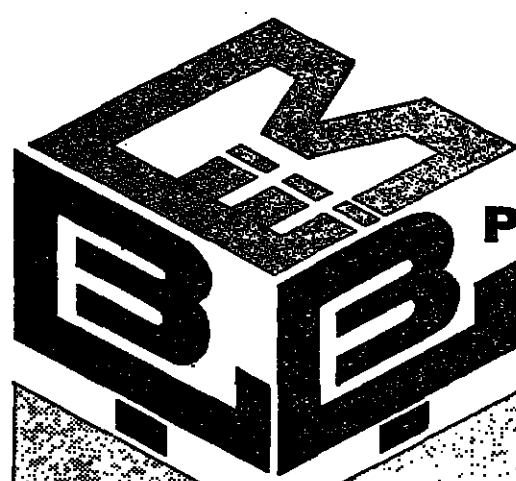
Upon incorporation BD 2,500 is payable to the Ministry as a registration fee and this is renewable every year. Out of the paid-up capital, which must be a minimum of BD 20,000, BD 5,000 has to be deposited with an "approved institution" in Bahrain (in practice the Bahrain Monetary Agency) as a security for the liabilities of the exempt company.

Information on each exempt company including the names of the shareholders, their shareholding in the company, details of directors and audited accounts are on record at the Ministry, and are available to the public upon application.

The firms included in the growing list of exempt companies are involved in a wide range of activities. These include banking, insurance, and regional support offices for overseas parent companies' activities. It should be noted, however, that in the case of banks and insurance companies approval from the Bahrain Monetary Agency as well as from the Ministry of Commerce is necessary.

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Assets	1982	1981
Due from Banks:		
Demand and call deposits	\$ 15,306	\$ 36,326
Time deposits	444,739	190,330
Money market instruments, at cost	117,452	43,506
Investment bonds and securities (Note 2)	29,599	27,949
Loans and advances, net (Note 3)	357,175	99,630
Investments in real estate (Note 4)	13,591	—
Accrued interest and other assets (Note 5)	30,101	11,930
	\$ 1,007,963	\$ 409,671
Liabilities and Shareholders' Equity		
Deposits and credit balances:		
Demand and call	\$ 15,623	\$ 7,640
Time	709,539	298,961
Accrued interest and other liabilities	17,944	8,203
Proposed dividends	25,000	11,175
	768,106	325,979
Commitments and contingencies (Note 6)		
Shareholders' equity (Note 7 and 8):		
Share capital: 1,000 million shares authorised, of which 800 million are issued; stated value \$.25 per share	200,000	74,500
Statutory reserve	25,836	2,036
General reserve	13,800	6,800
Retained earnings	121	356
Total shareholders' equity	239,857	83,692
	\$ 1,007,963	\$ 409,671

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May 1983

BAHRAIN X

Fierce competition in building sector

THE BAHRAIN/SAUDI causeway is the island's biggest construction project under way at the moment yet it is having the least impact on the general pace of business.

Bahraini merchants grumble about the relative lack of spin-offs generated by the work, but considering that Saudi Arabia is footing the entire bill for its cost there is little they can do about it. The contractor, Bandar Ballast Nedam, brusquely refers all enquiries to a head office in Holland, and even Bahraini Government officials divert queries to a telephone number in Riyadh.

The Bahraini business community has contracts to provide rock from a local quarry, a quantity of electric cables and food for the labourers. It has been cut out of the major parts of the \$564m project by a clause in Saudi laws that requires foreign contractors to show preference to Saudi companies when selecting sub-contractors.

Most of the heavy equipment needed on the project has been

brought in from Saudi Arabia where Ballast Nedam is still engaged on other major projects. The rest has been ordered from overseas, where the company's buying power has secured lower prices.

According to local officials the project is currently running on time and within the next few weeks the laying of the bridge sections is to begin. The contractor's prefabrication yard on Umm Nassan island is well advanced with the production of the 584 precast concrete piles needed for the project.

The dimensions of the project are staggering. There will be a 12.5 km dual lane bridge. Some 10m cubic metres of sand fill and 4.5m cubic metres of rock fill will be needed.

One of the greatest problems has been shallow water. In parts of the sea covered by the bridge, water depths are as little as one or two metres. This has caused difficulties for the 74 workboats which are being used during construction. A number have had to be purpose-built for the project.

One specially built vessel has a draft of only 600mm. Most of the contractor's vessels have drafts of up to 4 metres, however, so a considerable amount of dredging has had to be done.

On a project which is as big as the causeway and was awarded mainly on a fixed price basis, there is little margin for delays or mistakes by the contractor.

When the project started in September 1981 the contractor had quickly to change the proposed site for the work island and shift the location of the prefabrication yard to the north end of Umm Nassan, after test borings showed that the location on which the tender was based was unsuitable. There are also bureaucratic problems in securing the necessary permissions for work boats and equipment crossing the international waters between the two countries.

The contract sum is only partly fixed, say reports. Bridges and all temporary works are fixed, all other items are remeasurable, though at

fixed rates. There is also provision for a basic review of certain materials prices after two years.

Major parts of the design work still have to be completed. Until the Saudi and Bahraini governments agree on visa and security arrangements design work on two-man-made islands which will function as border posts cannot go ahead.

Tail-off

There is still discussion about whether lorries will be unloaded and cargo repacked on to smaller vehicles at the frontier areas. The Saudi road system and the causeway itself is built to take heavier axle loads than the internal Bahraini road system. Bahrain has to choose whether to upgrade its own roads or opt for a transhipment area on the border.

Back on Bahrain island, local contractors are expecting a tail-off in the amount of work available with 18 months or so. Meantime they are jockeying for the 30 or more office blocks and government buildings — completely unrelated to the causeway — that are already under way or proposed for urban areas. The Diplomatic area alone will have a dozen new office blocks within the next three years or so.

The fierce competition for the contracts on these private sector projects has kept prices down to 1977 levels, say local consultants and in some cases prices have gone below British levels.

The Housing Ministry is proving a valuable source of work for the smaller local contractors. Under a Ministry policy, all major development works are parcelled out to local companies in lots of 100 houses each.

This year the Housing Ministry has some 3,200 houses under construction as part of the development of Hamad New Town, which when completed will consist of 12,000 houses. Some 8,000 of these will be built directly by the Government and the remainder handed out in the form of gift plots, complete with public utilities and services, to applicants building their own houses. The whole Hamad Town project is costing BD 260m and because the project is already well underway, it is unlikely to be affected by Government cutbacks.

However, Bahrain still has a waiting list of 6-7,000 applicants

for homes. Bearing in mind this and the natural growth in population, the Ministry has identified a need for 22,000 houses to be built during the 1980s. The planning department of the Ministry is already studying possible locations for another new town, though the go-ahead for this project may be affected by budgetary considerations.

The industrial sector will of course continue to be dominated by the large foreign contractors. In mid-May the go-ahead was finally given for the aluminium rolling mill, a Gulf project owned by six governments. The project is to be awarded to Kobe Steel of Japan.

There are still question marks over the future of the heavy oil conversion project, expected to cost around \$600m. The project envisaged is a hydro-cracking unit which will produce naphtha, kerosene and gasolene.

Engineering of the U.S. is believed to be working on a number of designs for the three shareholder governments.

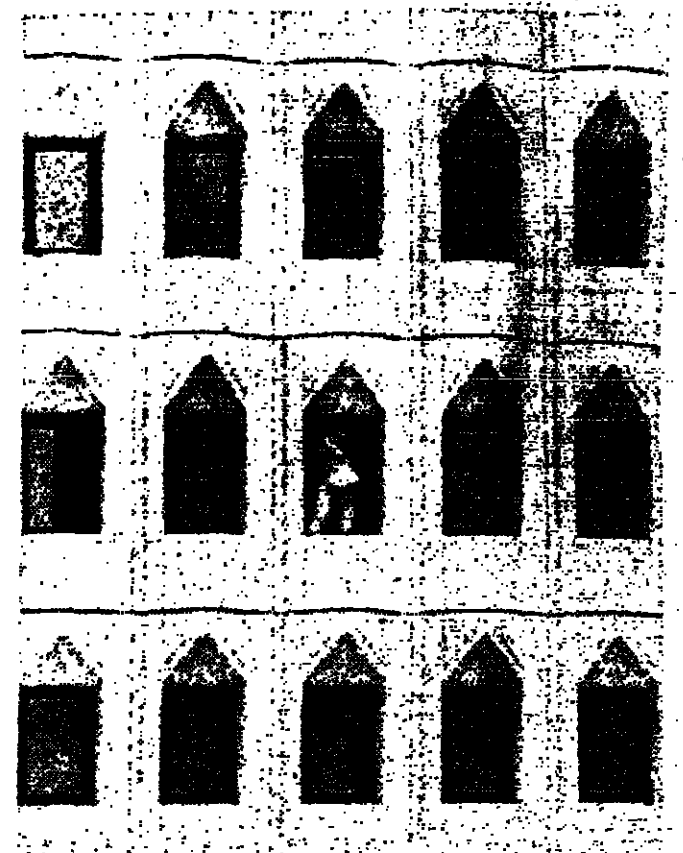
In electricity generation the four-year investment plan calls for the spending of BD 224.8m and a boosting of installed power capacity to nearly 2,000 MW by the year 1990. In water

desalination a contract for a reverse osmosis plant has recently been awarded to a Japanese firm.

As with all major construction projects in the Gulf area, there is considerable backroom manoeuvring before contracts are awarded. Foreign business circles are still trying to assess whether price or the importance of one's sponsor is the key to success, for there have been a number of occasions when contracts have been continuously re-tendered until the right name, or the right price, has emerged. Local businessmen on occasions have resented the dominance of prominent personalities in securing contracts.

The development of contracting politics has been relatively recent in Bahrain. Business circles suggest that it stems from the relative recession that has come to the market since 1979. However, it is still possible to enter Bahrain, maintain high professional standards, quote low prices and get the job, normally and above board, without any backstairs jockeying. At the moment there is enough work for everyone and it is shared around more or less to the satisfaction of all.

Kathy Evans



The new Finance Ministry building nears completion. Meanwhile, local contractors are jockeying for contracts on around 30 office blocks and governmental buildings.

Gulf Air joins fares scramble

AFTER YEARS of battling against airlines which give operators a severely eroded Gulf Air's market share, however, it is difficult to see how the airline will be able to ward off pressure from Bahraini travel agents for similar discounts when cheaper fares are available in the UAE.

The reluctant plunge into the discount ticket market comes at a time when Gulf Air faces a major face lift in its fleet. At present the airline has nine Boeing 737s and nine TriStars, and in the next few years, up to the onset of the 1990s, it expects to order an additional 16 to 17 aircraft.

Malki explains that such purchases are necessary to keep up with the high growth rates that the airline is still experiencing. Although growth has stalled off from the phenomenal rates of 30 to 40 per cent a year in the 1970s, it is still running at a steady 8 per cent a year.

The purchases are likely to be financed partly out of profits, and partly from manufacturers' credits and the banks. "We have the ability to borrow from the banks, even quite large credits," says the chief executive, though it is likely that the airline will be putting up as much as half of the cost of the purchases in cash.

This time, also, the airline has outlawed middlemen. The last time Gulf Air bought a number of American aircraft, there was a spate of reports of huge commissions being paid to influential agents, and Malki says he is anxious to avoid a recurrence of such payments.

Gulf Air says the decision on what it is to buy will not be made until the end of this year, but that it is currently looking

from Dubai and Abu Dhabi, where price-cutting by other operators has severely eroded Gulf Air's market share.

The decision comes after years of public condemnations and conference resolutions aimed at protecting the Middle East carriers from airlines with fifth freedom traffic rights. These entitle them to carry passengers between cities that are not in their own countries.

At times, Gulf Air conducted the battle virtually single handed, for Arab carriers were also indulging in discounting tactics to scoop up part of the lucrative market in the Gulf region.

In the past 10 years, as Western nations went into recession, many carriers previously making technical stops in the Middle East secured traffic rights in order to tap the one market which was showing phenomenal growth.

Their entry into the Gulf occurred at a time when and governments in the Gulf were busy expanding their own status symbol airports. The result was a proliferation of airports in the region, all eager to sign up new customers to justify their existence.

International airlines, particularly those operating from Europe to the Far East, were enthusiastic about the opportunities the market offered.

Protection

All Ibrahim al Malki, chief executive of Gulf Air, says the sheer quantity of seats now offered to Gulf travellers has eroded the natural market share of the region's national carriers. "We only have 25 per cent of our rightful market — we believe we are entitled to at least 50 per cent."

He estimates that eight seats are on offer for every seat eventually filled by a passenger, a situation which he believes is ludicrous and should end. Gulf Air has been trying for years to end the "open skies" policies followed by some of its four shareholder states — Bahrain, Qatar, the United Arab Emirates and Oman.

A number of the airports pursuing such policies, particularly those in the UAE, are likely to try to protect their business. However, the growing strength of the Gulf Co-operation Council and the unity it promotes could wield a powerful stick over the interests of individual airports.

Gulf Air executives explain that while closing the skies to fifth freedom operators could represent a temporary loss of business for airports in the area, the airlines will have to continue to make technical stops anyway. Beirut is still not a safe alternative, and Tehran's Mehrabad airport dropped off the international airline map at the time of the revolution.

Malki believes that the net loss of business in the end would probably be only 30 per cent, and this gap would be gradually filled by Gulf Air with increased frequencies. In five years, with natural traffic growth, the impact of such a move on the airports' business might be negligible, and for Gulf Air, the bonus of protection would ensure its continued profitability.

But until such moves are decided upon by the governments which own Gulf Air, the airline is forced to adopt the discounting measures it has been for so long condemning.

Nicolas Moudarri, the airline's commercial general manager, says the discounts will depend on the availability and the strength of the carrier in each particular market. "We will leave a lot to the discretion of our local marketing managers. We will match the discounts when it suits us."

At first the discounts will be available only

from Dubai and Abu Dhabi, where price-cutting by other operators has severely eroded Gulf Air's market share.

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Diversions

The Asian sub-continent is by far the most prolific market for the airline. Gulf Air currently operates 30 TriStar flights to a week, 21 flights weekly to Karachi and four to Colombo in Sri Lanka. Management executives believe this traffic, which consists mainly of labourers, could begin to tail off as the number of construction projects in the Gulf area is cut back because of the fall in oil revenues.

When this happens, these flights will be diverted to Arab destinations such as Khartoum, Beirut, Damascus and Sanaa, which currently are not served by the airline.

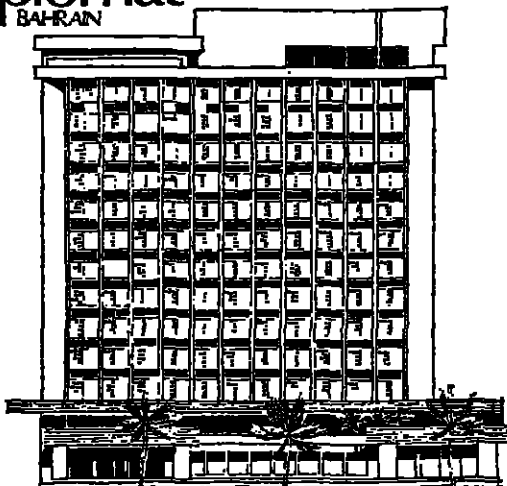
The prestigious London route is now being served by three daily flights, but only breaks even in terms of profitability. The routes to India and Pakistan are averaging load factors of 60 to 70 per cent, some of the highest in the world.

Cargo traffic continues to notch up new records. The volume of cargo is currently running at 3.5m kilos monthly, says Ralph Townsend, cargo sales superintendent. However, because of the lack of return loads, the airline has been deterred from purchasing a freighter aircraft. Cargo traffic is now accounting for some 10 per cent to 15 per cent of total revenue a year, despite the decline in the value of the pound sterling and the Indian rupee.

In the longer term the future of Gulf Air is likely to be closely bound up with the other carriers of the GCC States, namely Saudia and Kuwait Airways. Already resolutions have been made on collective purchase arrangements, more joint services, catering and ground services. The near future is likely to see the establishment of a joint civil aviation authority. There has been some consideration given to the establishment of a joint cargo carrier, which Gulf Air's Malki believes could be one of the largest cargo carriers in the world. However, such developments will have to await the fate of the fifth freedom carriers in the Gulf area, for at the moment the proliferation of passenger services is matched by a proliferation of cargo airlines.

K. E.

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BAHRAIN XI

Heavy oil conversion plant leads diversification projects

IN BAHRAIN over the next five years some \$2.5bn worth of new industrial projects are scheduled for completion. As yet there are no signs of major cutbacks in the investment programme, either from the Bahrain Government side or from its partners in Saudi Arabia and Kuwait, who are underwriting much of the cost. Projects may, however, be spread over a longer period of time.

The biggest new project will be owned by the Heavy Oil Conversion Company (HOCC), and will operate in association with Bahrain's existing refinery. The scheme owes its birth to the shareholders' realisation that the application of the most advanced technology to the oil industry has become a priority if Gulf producers are to hold their own in world markets.

After examining a wide range of alternatives, the Lammis process engineering company of the United States has just completed a feasibility study for an 80,000 barrels a day hydro-cracking unit, which will convert residual fuel oil into higher value products. The project will be considered by HOCC's board of directors on July 18. The consultant's report will then be presented to the industry ministers of the three shareholder states, Bahrain, Saudi Arabia and Kuwait, who are confidently expected to meet in September to give the go-ahead.

Every year's delay puts up the price; today, the processing plant and ancillary marine installations would probably cost just over \$1.5bn, but inflation might boost this to at least \$1.8bn for a 1985-88 construction period—the earliest for which design work and contract specifications could be ready.

Contribution

Some oilmen have doubts about the economics of shipping to Bahrain feedstock by tanker to top up the supplies of fuel oil available in the country. Although each government is committed to providing its share, Saudi Arabia has no suitable feedstock from its own sources and Bahrain will probably have to buy some oil on the open market in order to provide its 40 per cent contribution, even if the refinery operates at low throughput levels.

HOCC plans to employ about 800 people, of whom 80 per cent would normally be recruited abroad; but refinery outbacks could make more experienced process operators available locally. HOCC might share with Bapco housing, medical and computer services.

On May 11 doubts were cleared up on another diversification project—the long discussed Gulf Aluminium Rolling Mill Company (GARMCO). A letter of intent was signed to award a \$200m construction contract to Kobe Steel of Japan. GARMCO will be associated with the aluminium Bahrain (ALBA) smelter.

NEW INDUSTRIAL PROJECTS				
Name of Company	Owners	Approx cost	Construction	Product
Gulf Petrochemical Industries Company (GPIC)	Bah/Kuw/Saudi equally	\$400m	1981-84	ammonia/methanol 350,000 tpy each
Arab Iron and Steel Company (AISCO)	Arab Mining Co. & Gulf Investors	\$300m	1982-84	iron pellets 4m tpy
Gulf Aluminium Rolling Mill Company (GARMCO)	Bah/Kuw/Saudi/Turq/Qatar/Oman Bah 40%, Kuw/Saudi 30% each	\$200m	1982-85?	alum. sheet, coil, foil sheet 40,000 tpy
Heavy Oil Conversion Company (HOCC)	Gulf Investment Co. 49%, other Gulf investors 3 Bahraini businessmen	\$1.5bn?	1985-88?	light distillates from fuel oil 80,000 b/d
Bahrain Light Industries Company (BLICO)		\$8.5m	1982-83	wooden and upholst. furniture, doors, window frames etc.
Gulf Acid Industries		\$2.5m	1982-84?	sulphuric acid 9,000 tpy

Chart compiled by Mary Frings.

The award of the GARMCO contract had been scheduled for March 1, but at the height of the oil price debate, which raged at that time, a senior Bahraini official spoke of the feasibility of the project being re-assessed. It would not have been surprising if one or two of the shareholders (Bahrain, Kuwait, Saudi Arabia, Iraq, Qatar and Oman) had felt reluctant to go ahead on the basis of the long-range market forecasts produced by the Gulf Organisation for Industrial Consulting (GOIC), which had promoted this first exercise in pan-Gulf industrial co-operation.

On GOIC's projections, GARMCO's 40,000 tonnes a year hot and cold rolling mill could supply as much as 40-50 per cent of regional demand for aluminium building sheet, foil stock and general coil and flat products. But the very existence of such a plant is expected to boost the market, because it is reasoned that local manufacturers will exploit the downstream opportunities, ranging from kitchen utensils to truck bodies and from soft drink cans to curtain walling.

In November last year Lloyds Bank International was appointed financial consultant to GARMCO. Project consultant is Keesey Engineering Services, which will supervise all aspects of the turnkey construction contract. This will include the supply of technology and the training of operating personnel.

Construction of the Gulf Petrochemical Industries Company (GPIC) ammonia and methanol plant is proceeding on schedule for commissioning in 1985. The site has been reclaimed from the sea and was handed over to the Italian main contractor, Snamprogetti, in April last year. Civil and mechanical work has been sub-contracted to SAIPEM, which like Snamprogetti is a subsidiary of the Italian state-owned ENI oil corporation. Other sub-contractors include Wimpey Laboratories (soil investigation), GKN (foundation work using vibro-driving) and a local civil contractor, Ahmed Mansoor Al Aali.

GPIC has established a procurement office in Milan, to work in close consultation with Snamprogetti which is supplying equipment for the plant on a cost-reimbursable basis, and with Uhde of West Germany

which is supplying technology under licence.

Orders have been placed for most of the long-delivery items and a sum of \$65m (out of a possible \$200m) has now been committed.

Experience

The largest single order, worth \$10.5m, has been won by Britain's Motherwell Bridge for the supply of ammonia and methanol storage tanks, and Barclays Bank International has negotiated an ECGD credit line of up to \$20m. Export credit facilities have also been made available on orders to manufacturers in Germany, Japan, Italy and Holland. All equipment orders should have been placed by the end of the year, and the first deliveries are scheduled to arrive on site for early 1984.

Dr Tawfeeq Almosayed, chairman and managing director of GPIC, heads a three-man committee set up to devise a marketing strategy. Its members are Abdul-Baqir Naimi, chairman of Kuwait's Petrochemical Industries Company (PIC) and Abdul-Aziz Al Zamil, vice-chairman and chief executive of the Saudi Basic Industries Corporation (SABIC). Both Saudi Arabia and Kuwait have experience of the ammonia market, while SABIC has experience of methanol.

World petrochemical prices are currently low, but even so they are above those assumed in studies to determine the commercial viability of the plant. Despite the number of new petrochemical projects coming on stream in the Gulf, Dr Almosayed points out that by 1985 they will still be producing only 7 per cent of the world's total requirement.

"I think we will be able to stand competition," he says. "The deciding factors are cost of feedstock, freight charges and management efficiency. The first is no problem in the Gulf and we will try to achieve the third; we can keep freight charges down by co-ordinating shipments among ourselves, so that vessels never leave the Gulf with less than a full load."

The Arab Iron and Steel Company (AISCO) is also making progress on its iron ore pelletising project. Reclamation of 1.2m square metres of land

for the project east of the Arabian Ship Repair Yard (ASRY) dry dock is now 80 per cent complete.

It forms a new industrial island bigger than the shipyard itself. The plant site has already been turned over to Kobe Steel, which has a \$207m turnkey construction contract, and a start has been made on concrete foundations by the sub-contractor, Balfour Beatty, which has completed most of the piling for a deepwater jetty to berth bulk carriers of up to 100,000 dwt.

The \$41m jetty sub-contract is the subject of litigation by another British firm, John Howard, which previously received a letter of intent and reportedly mobilised materials and equipment on the strength of it. According to AISCO, the deal came to grief over negotiation of a supervision fee for Kobe.

AISCO will use the grate-kiln system to transform iron ore fines into the hard but porous pellets which meet the requirements of the HYL and Midrex reduction processes. But existing reduction plants in the region (in Saudi Arabia, Qatar and Iraq) could consume only about half of AISCO's planned pellet output of 4m tonnes a year, even if the product is competitive on a world-wide basis and the company can make inroads on established market shares.

Backing

Other regional steel projects are in the pipeline, and the 1985 demand for iron and steel finished products is put at 17m tonnes a year; but unless AISCO can find the financial backing to implement its own 2m tonnes a year direct reduction project (which looks increasingly doubtful without heavy government support), it will be dependent for some years on exporting outside the region.

It is this thought which has given rise to some doubt as to whether the advantage of cheap energy will compensate for high construction and labour costs and the expense of shipping in raw material and shipping out product to distant destinations.

A number of Kuwaiti private sector investors are putting their money into AISCO, as are the government-backed Arab Mining Company and the Kuwait Foreign Trading Contracting and Investment Company. Bahrain's state social security organisation has a small stake, as do the three Bahraini national banks.

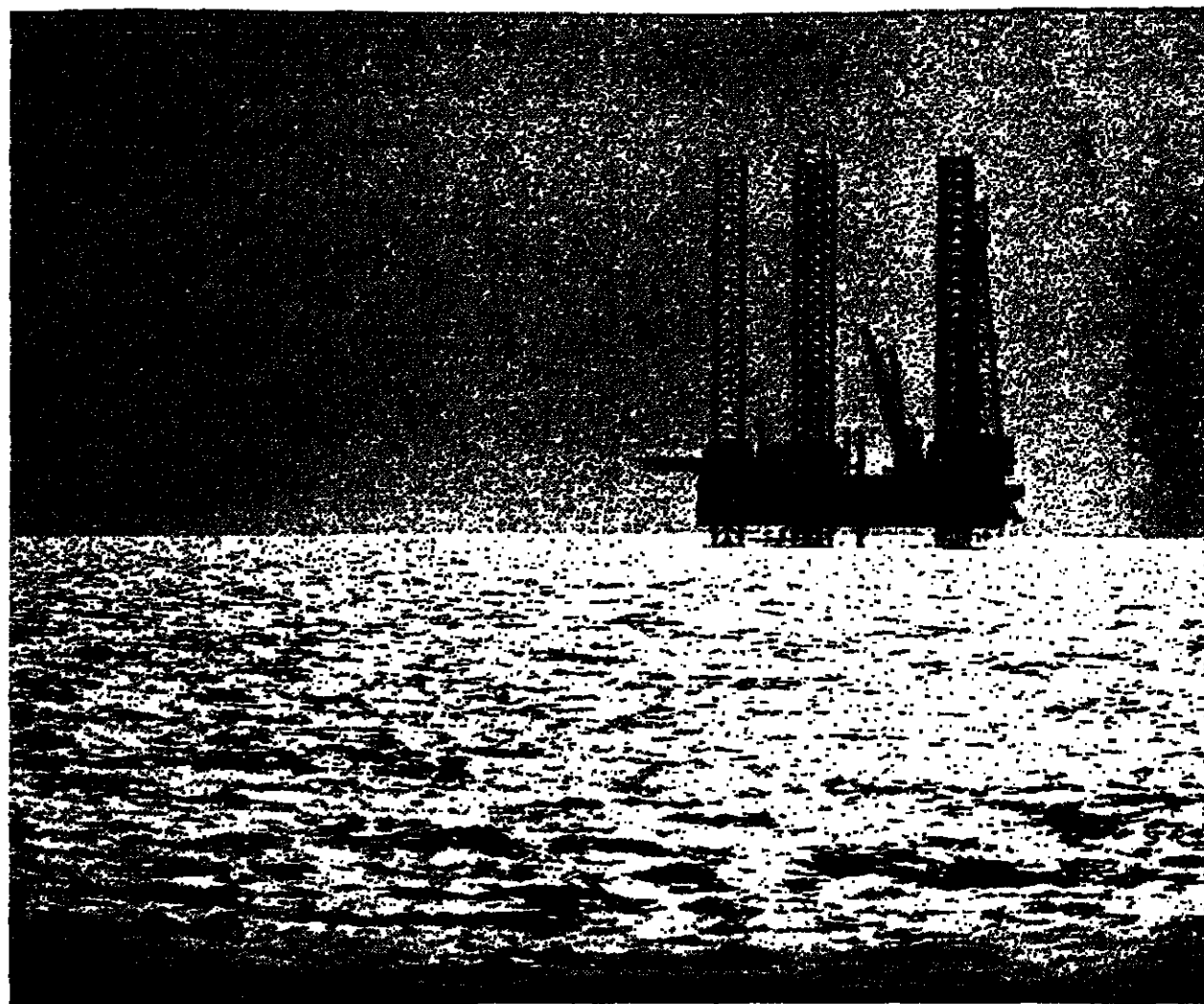
While the Bahrain Government gives encouragement to small-scale private enterprise of the type represented by Gulf Acid Industries, whose \$2.5m factory is to be built under the supervision of Simon Carves of India, it has had to weigh in more heavily on the side of the Bahrain Light Industries Company (BLICO) which had considerable difficulty in raising private capital to finance its \$5m furniture factory.

The major shareholders, as a result of official persuasion, are Gulf Investment Company EC (48 per cent), the General Organisation for Social Insurance (15 per cent) and the National Bank of Bahrain (11 per cent).

In September 1981 BLICO signed a relending agreement with the Government of Bahrain to make available a \$5.4m soft loan from the Abu Dhabi Fund for Arab Economic Development. And in February this year, in conjunction with the signing of a contract for the supply of woodworking machinery with the Italian company SCM International, the company was granted an extremely favourable terms a \$D im loan from the National Bank of Bahrain to finance letters of credit.

A \$3.5m civil construction contract has been awarded to the local contractor Mohammad Jalal, the \$5.3m package from SCM includes commissioning of the plant, management assistance and training of personnel. Hamad Abul, its chairman, says the furniture factory—the first of several projects to be undertaken by BLICO—will be in production by the end of the year and will look for a turnover of \$27m a year when it reaches full capacity in 1986. However, breakeven point could be reached a year earlier, at 45 per cent of capacity.

Mary Frings



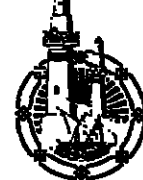
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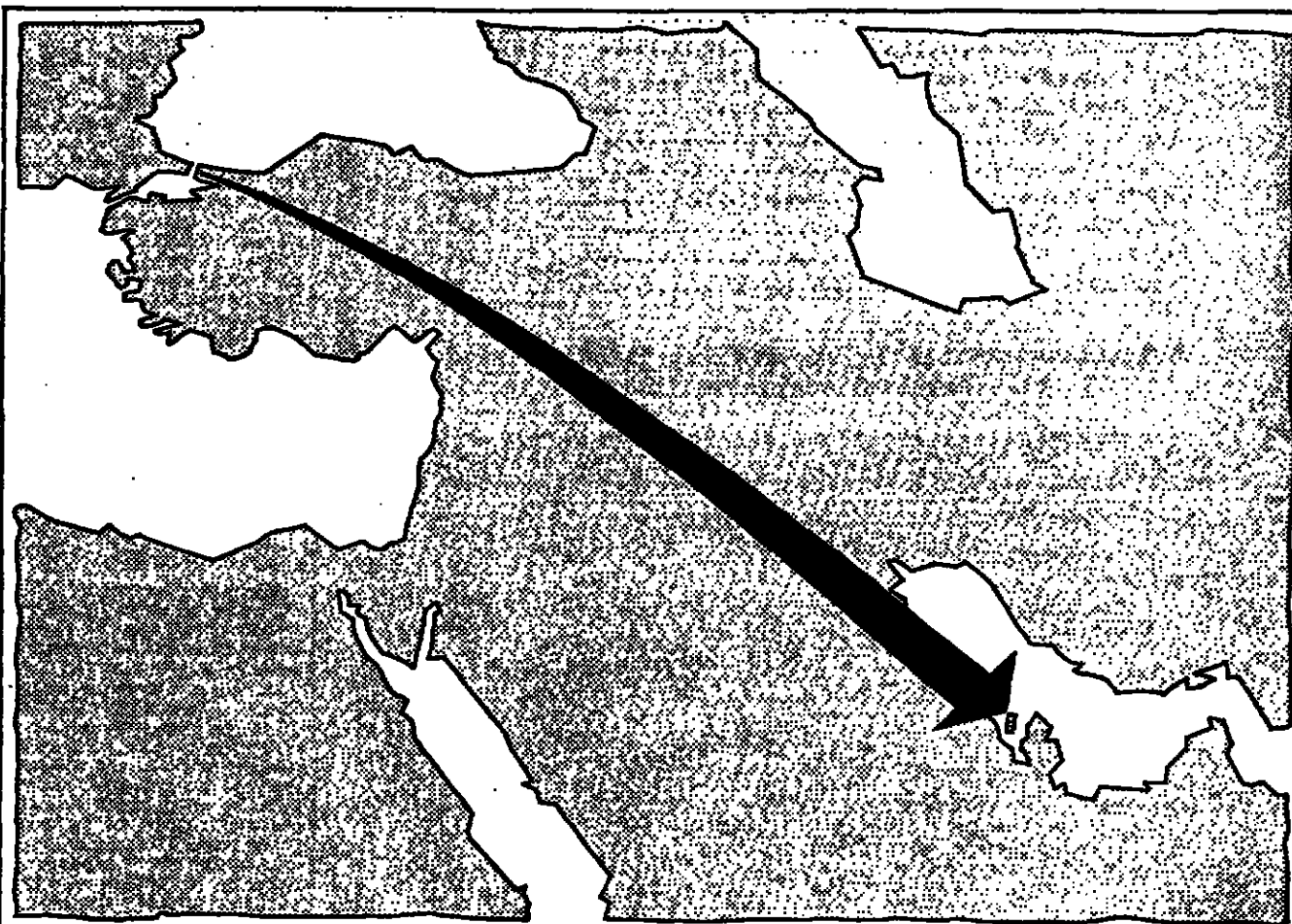
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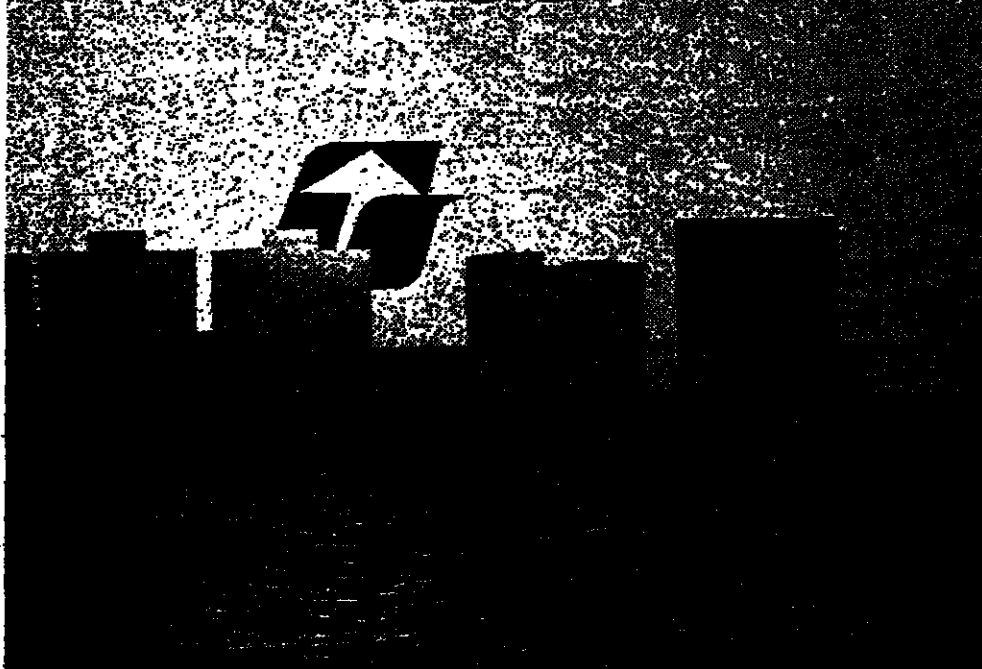
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